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## Mr. Nesterov's Plan

By the Editor

**R**USSIA has been quick to make capital out of Asian alarm over the European Common Market. Knowing that both Dr. Loekman Hakim, Governor of the Bank Indonesia, in his recent report, and the Indian delegation at the Afro-Asian economic conference in Cairo last week had suggested collective defensive action by Asian countries against the effects of collective restrictionism on the European continent, Mr. Nesterov, heading the U.S.S.R. delegation to the Cairo conference, proposed that "a pool should be formed immediately of raw materials produced by the Afro-Asian countries."

As it happened, Mr. Nesterov was ruled out of order and the propriety of his delegation's presence questioned—by the Indonesians and Filipinos particularly. But this tactical defeat does not alter the fact that Russia, by renewing offers of financial aid "without strings", can at this juncture point a very favourable contrast with a western Europe that is about to deny trade to Asia.

This comes at a time when many Asian leaders have recognised that "Trade not Aid" is in many ways the more preferable form of economic relationship with the industrially advanced countries. Of course those same leaders are from experience sceptical of Soviet offers which in the past have turned out to be less attractive and advantageous than they originally seemed. But Russia too may well learn from her mistakes and make an effort this time to avoid the anti-climaxes of the Burma barter fiasco, for example.

The Asians' reaction to Mr. Nesterov's proposition was to ask whether they could sell their products from such a pool. The suggestion is impractical, but others of greater realism may be expected to be put into practice before long.

The Indian proposals are particularly worthy of study. They constitute a three-point plan to set up an Afro-Asian economic bloc excluding territories within

the Common Market—such as the Belgian and French dependencies in Africa. Within this bloc, mutual customs privileges would be granted, production and marketing would be co-ordinated, and speedier efforts to industrialise would be made by countries producing the raw materials imported by the European Common Market nations.

This is an ambitious one, and it probably over-estimates the capacity of the newly-developing countries to accept the additional burden of regional co-operation in their economic development. It is unlikely, for example, that restrictionism in western Europe will appreciably hasten the industrialisation of India or Indonesia where lack of capital is the major obstacle.

## The Harsher Reality

Indeed, reduced trade with the Continental Six will, if anything, slow down the rate of economic growth. Indonesia, for example, at present relies on the Six for about 75% of her export earnings, and these will suffer considerably under the new 39%, 16% and 9% tariffs on her tobacco, coffee and cocoa.

The Indian suggestions betray a little pique, and understandably so, with the gap that will yawn in a fortnight's time between European protestations of boosting world trade and the harsher reality of the Common Market's closing the doors on Asian products. When tempers have cooled the three-point plan may seem a little impractical.

But no western leaders should remain in doubt of the psychological impact of the Common Market on their Asian friends. On another page we discuss the especially vulnerable position of Hongkong under the forthcoming arrangements, and Japan also will be heavily hit. Economic regionalism on a restrictionist pattern cannot in the long run be expected to be confined to Europe.

## REPORTS OF THE WEEK

*Notes and comment on the week's events in East & S.E. Asia, from our correspondents abroad and our staff in Hongkong.*

### Singapore Elections

#### Next April?

From G. G. Boland  
Singapore

ON the whole it was a depressing period on the Malayan Share Market following the tax increases in the budgets of the two territories and the drop in the rubber price. There is less confidence about it now and the high hopes for the Malayan economy, which had been expected to materialise towards the end of the year, are no longer there.

With Russia and China out of the rubber market and the heavy selling of the past week, it is something to be wondered at that the drop in prices on the Malayan Share Market was not bigger.

As uncertainty grows on the economic front, the haze on the political horizon is beginning to clear. It is now expected that Singapore Legislative Assembly will be dissolved on April 2 or even before. Polling day for the first assembly in a self-governing state of Singapore may be during April or at the latest May 23.

The Chief Minister, Mr. Lim Yew Hock, has now specifically stated that his government has no intention of prolonging the life of the assembly beyond April 2, the date on which the present Rendel Constitution expires. The new constitution comes into force on the day of the elections. The date of these elections depends on the time agreed on for campaigning by the political parties. This can legally be from three to eight weeks. Mr. Lim himself favours five weeks.

An election bill is likely to be presented to the Assembly in January, laying down what candidates and voters "should do and not do." It is now generally expected that compulsory voting will be introduced for Singapore's 700,000 citizen voters. But although the political apparatus is now clearer, the only certainty among the political parties is the apparent unity and purposefulness of the People's Action Party.

The formation of the Singapore People's Alliance by Mr. Lim has divided and weakened the Liberal Socialists, Labour Front and Workers' Party and confused relations with the United Malay National Organisation, the party of the Tengku Abdul Rahman.

#### Rubber Shipments Up 3%

Pan-Malayan rubber shipments in November were up 3% to 99,751 tons, but although after August they were on the face of it the second highest this year, they were in actual fact little changed in October. This was due to the carry over of Russian rubber originally scheduled for shipment at the end of October.

Exports in the first eleven months of this year totalled 986,064 tons, an increase of 8½% over last year's comparable period and the highest in any eleven months since 1951. Tin exports in November were officially stated to be 4,176 tons, a rise of 17%. In the first eleven months of this year total shipments at 44,022 tons decreased by 33%.

The adjusted official rubber imports for November were the third highest this year and compared with an average of 32,000 tons a month. The actual total was 40,267 tons or 12% more than October.

Based on official figures imports in the first eleven months of this year totalled 380,157 tons, an increase of 12% on the corresponding period of 1957.

This could all suggest that the disturbances in Indonesia earlier this year have not upset the exports of rubber from that country as much as had been expected.

Singapore traders do not find doing business with their neighbours as easy as it used to be. Latest difficulty is that Chinese businessmen trading with Burma temporarily suspended delivery of goods to Rangoon on December 5.

Their customers in Rangoon asked them not to send goods ordered recently "until further notice."

They said the Ministry of Commerce there had cancelled all applications for foreign exchange to import goods from the sterling area. Those that had been approved were also being reviewed. Merchants there were afraid that new shipments from Singapore might be seized.

It is understood that on November 21, the Burmese Government relaxed its foreign exchange control for goods from the sterling area because of Burma's favourable trade balance with this area. Within a week, the rush for foreign exchange to purchase goods from Singapore, Malaya, Hongkong and India was so great that all available foreign exchange was exhausted.

### Malaya Revises Tax Rates

From D. M. Fenney  
Kuala Lumpur

THE FIRST thing that can be said and is being said about the new budget of the Federation of Malaya is that it could have been a lot worse. The deficit this year is \$90 millions on revenue of \$756 millions and the deficit next year is expected to be \$114 millions with the revenue at \$760 millions.

The Finance Minister, Sir Henry Lee, is confident that these deficits can be financed without difficulty but he did not disguise the fact that he would have liked to see some increase in income tax, particularly by "broadening the base." But the rest of the Government, with elections coming next year, did not share his enthusiasm and so income tax remains as it is despite the (unhappy?) example of Singapore.

However the Finance Minister needed an extra \$36 millions to offset to some extent the likely fall in Customs duties, particularly the rubber export duty whose contribution to revenue has been calculated on an export of 645,000 tons at an average selling price of 75 cents a lb. He will get this by increasing the tax on petrol from \$1 to \$1.20, increasing company tax from 30 to 40 per cent and by a new export duty on rubber planting material which will bring in \$450,000.

The increase in company tax was a surprise and commercial representatives in the Legislative Council voted solidly

against it. It had been freely suggested that the Government would not increase company tax at a time when the Federation is attempting to attract foreign investment. The bill was passed with the trade unions supporting it, despite a warning from employers that wage increases would be more difficult to get in the future.

The case against the proposal was put by Mr. H. B. Hussey, of the FMS Chamber of Commerce, who warned that the increase would discourage investment. "Private investors look not only for a healthy investment climate but also for a little higher return on the money invested in such a country than would be the case in some other countries enjoying a more diversified economy," he said.

Most concerns ploughed back 50 per cent. of their profits and it was this portion of the income that would have to bear the full tax at 40 per cent. "As a result of this tax companies will be encouraged to pay out all profits so that shareholders can get the maximum benefit from their investment," he said.

The Finance Minister said that the question of investment was not whether the tax was 30 or 40 per cent. but

whether the investor would get fair trade under a stable government and was able to make a profit. "Obviously," he said, "if he could make more profits in Europe or America nothing would induce him to come here."

The increase in petrol tax has come in for more general criticism but there was no concerted attack on it and this measure has also been approved. It makes the price of an ordinary gallon of petrol \$1.98 including \$1.20 tax and it seems rather unfortunate that this should have to be so in a country which depends heavily on transport.

The Finance Minister vigorously denied a suggestion that he had raised the tax on petrol in order to make road transport more expensive and thereby give the poor relation of the transport industry, the Malayan Railway, a chance to make a profit. In fact the vast proportion of the lorries and buses in Malaya are diesel engined and there is unlikely to be any increase in charges.

There was more general acceptance for the tax on the export of high-yielding planting material which will be both a control measure and a revenue earner. Malaya has spent a great deal of money on developing a better rubber

tree and this will return a portion of it. There was a suggestion that in taxing this export Malaya may find it difficult to obtain planting material from other countries to diversify agriculture but this was not seriously considered by the council.

Malaya is at present exporting a great deal of rubber planting material surplus to her needs to rehabilitate the rubber industry in other countries and to start rubber plantations. Countries taking Malayan planting material include Africa and Brazil (from where, in-of rubber seeds half a century ago to incidentally, Malaya got the first handful found the present industry).

### Vietnam's Hopes From Colombo Plan

From François Nivolon  
Saigon

THE INTEREST created in Vietnam by the Colombo Plan cannot be over-emphasised. Its specially supple formula is ideally suited to this country, allowing Vietnam to acquire machinery and plant as well as send students and technicians abroad for training.

At the Colombo Plan conference in Seattle last month M. Huynh van Diem, the Director-General of Vietnam's Plan, stressed that his country needed for its programme much larger credits than the small sums which are contributed every year and which are only enough to buy consumption goods. Vietnam's plans were not ambitious, he declared, in view of the lack of both capital and technicians.

\*They concentrated on raising agricultural productivity without causing over-production and a consequent fall in prices. Vietnam was better advised to balance her budget by selling her surplus *caoutchouc* and other products rather than by waiting to develop industry.

M. Vu van Mau, Secretary of State for Foreign Affairs, equally affirmed at Seattle that the dumping policy of Peking and Moscow was formal proof of the Communist intention to undermine the South East Asian economies and threaten their economic—and subsequently political—dependence.

"No other international institution," M. Vu van Mau went on, "is better qualified than the Colombo Plan to give an impetus to the creation of an Asian common market." He further let it be known that if Vietnam rejected the solution which the Communists offered for her economic problems, she would have to adopt, such as they are, the methods of the West, which regards economic liberalism as sacred dogma.

These declarations at Seattle aroused an interest all the greater because Vietnam knows the difficulties of the existing economic order—foreign investment is lacking, hopes of West German economic aid did not materialise, and the reparations treaty with Japan, which envisaged construction of the Oanhim dam and other industrial development, has not yet been signed. High hopes are therefore placed on the Colombo Plan.

### Japan's Machine Boom?

**N**EW orders received for Japanese machinery in September reached the fourth post-war high of Yen 75,113 million, according to the Economic Planning Board's survey. Of this total, foreign orders amounted to Yen 29,000 million — eight times the amount for the previous month — representing more orders for Japan's shipyards.

In addition, large orders from the private sector in such basic industries as electric power, iron and steel and coal brought the total demand from this sector

up to Yen 36,500 million, or nearly double the August level.

Although the Planning Board apparently attributes much of this record total to seasonal factors and doubts if this high level can continue, the figure shows that Tokyo is advancing appreciably from recession. The industrial production index for October rose by 50% more than usual, and that followed a substantial rise in the previous month as well.

The index now stands at 149.2 (1955=100), which is 4.8% higher than a year ago. Gross national production rose in the fiscal year 1957 by 7.7% in real terms, according to the Board.

### Tokyo Port, 1965

**H**ARBOUR and dock facilities at Tokyo Port will be expanded during the next six years so that it will be able to handle 14 million tons of commodities with ease. The plan covers the southern and western waterfront of Tokyo embracing the piers at Toyosu, Harumi, Shibaura and Shinagawa.

One of the projects will be the widening of the 6,500-metre ship lane in the Tokyo Bay from its present width of 150 metres and depth of 9 metres to 200 metres and 10 metres respectively. The depth of the anchorages and buoyages will also be increased to 9-10 metres and the turning areas widened considerably.

The Harumi Pier will be expanded for use in overseas trade. At present this pier has a 504-metre long quay to accommodate three 10,000-ton vessels, four units of cargo handling machines, two sheds, truck roads and railway tracks. To these will be added a 504-metre quay for two ships, three sheds, more machines and a train marshalling yard. Also contemplated is a tourist pier with an exhibition hall of Japanese commodities in the background.

The Toyosu Pier now handles 1,700,000 tons per year of coal which accounts for 20% of all goods handled at Tokyo Port. The facilities there will be expanded to cope with the anticipated volume of traffic resulting from the planned increase in the output of a nearby thermal power plant.

The Shinagawa Pier, now under construction on reclaimed land, will be used for foreign trade along with the Harumi Pier. The annual traffic of 240,000 tons of commodities will include steel, coal, oil and sundries. The pier will be able to accommodate five ships along the anchorage extending over a length of 1,050 metres.

### More U.S. Aid To Ceylon

**T**HE U.S. and Ceylon signed an agreement recently for the provision of additional assistance to Ceylon amounting to Rs 3.5 million under the U.S./Ceylon Economic and Technical Cooperation Program. A sum of Rs 1,260,000 has been allocated for agricultural extension, research and education; Rs 809,000 for water resources planning; and Rs 1,428,000 for irrigation and land development. These allocations have been made to augment previous aid budgets.

To assist the Ministry of Agriculture and Food to carry on its program of increasing agricultural production and raising the standard of living of Ceylon's rural population, the U.S. will furnish additional equipment and supplies amounting to Rs 285,000, provide additional training and study facilities abroad for 18 technical specialists of the Ministry, and continue to provide advisory services in such selected fields as food crop and animal research, rubber breeding, weed control and improvement of farm tools and implements.

The Ministry of Lands and Land Development has selected Ceylon's largest river basin, the Mahaweli Ganga, as a pilot project for which it is developing all feasible water and power development schemes for integration into an overall multi-purpose engineering plan. The pilot project will develop trained staff and will serve as a specific model and demonstration for future work of a similar nature.

Pursuant to a project agreement signed earlier, the U.S. has furnished equipment and the services of a short-term consultant and three members of a Water Resources Planning Team to assist the Ministry in its program. Under the new agreement the United States will furnish additional equipment and increase the number of American specialists to eight.

To assist the Ministry of Lands and Land Development in its program of opening up new land for irrigation and the restoration and modernization of existing irrigation works, the U.S. will provide additional equipment, training and study facilities abroad for four technical specialists of the Ministry and the funds required for continuing the services of a ten member U.S. experts team supplied by the Cinnell Corporation of Alhambra, California. The team has already served the Department of Irrigation for a 16-month period under a previous two-year contract.

## China's Grain Output

AFTER announcing that China's grain harvest this year will reach 350 million tons, Peking is urging Chinese farmers to further increase the output. In an article published in a recent issue of *Cheng Chih Hsueh Hsi* (political study) entitled 'Can Grain Production Leap Forward and Leap Forward Again?', the author ranted: "The nation's average per mow output of wheat this year is 193 catties, an increase of 71 per cent over last year. This is a big leap forward but this year's highest output of over 7,400 catties per mow is nearly 40 times as great as that of 1957. The situation with the paddy rice is about the same. Can we say that this figure is too large for large areas to reach?

"The record of wheat and rice output this year is not the highest yet. Some hold that such a high yield is only possible for the experimental plot which is far more fertile and therefore not applicable to the land in general. This is not true. The experimental plot of Kuan Mu Shen of Chang Feng Cooperative in Hupeh, which scored a per mow record of 15,000 catties, originally was a piece of land of poor quality.

"This shows how great the potentials are in the land which can be tapped. The land responds exactly to the amount of labour we put in—more labour, more output!"

Other communist publications also maintain this view of possible leap forward in China's grain output. In addition to this, other propaganda media are being used by Peking to repeat the theme that China can and will produce more. Very soon it will be a crime not to produce more.

How are the people responding to the call? Peking's *Ta Kung Pao* reported that Chinese peasants had been recently urged to reap their fields a second time to "gather the crops they missed in the earlier high speed drive to bring the bumper harvest home."

The appeal was made by the Ministry of Agriculture. The Minister disclosed that in some areas there were serious losses of grains owing to "crops being carelessly cast aside" and that in most regions special units had to be formed to make sure the crops were fully gathered.

This is indeed something new in the history of China. Chinese peasants, before the 'liberation of their productivity' by Peking, had never "carelessly cast aside" any crop in the past!

## Rightists In China

ONE AFTER another, leading 'rightists' in China, who had earlier this year been demoted by Peking, are now being re-elected to important offices. On December 4, it was reported that the Revolutionary Committee of the Kuomintang had re-elected Lung Yuen, Chen Ming-shu, Huang Shaoh-sueng and Li Tsuen-lung to the new Central Committee.

The next day, the Chiu San Society re-elected two demoted rightists—Hsu Eyu and Yuan Han-ching—to its Central Committee. On December 8, China Democratic League also re-elected rightists Chang Po chun and Lo Lung-chi to the Central Committee of the league.

The re-election of these rightists, particularly Lung Yuen who had dared to criticise Moscow and three other ex-Kuomintang members, must have had the approval of the Chinese Communist Party in advance. This shift of C.C.P.'s policy is not surprising in view of the recent party line of "from foes to friends" adopted by Peking in dealing with the Taiwan problem.

At the peak of the anti-rightist movement in China this year, many foreign observers concluded that Peking's move would discourage if not stop defection among high-ranking Kuomintang officials still serving under Generalissimo Chiang Kai-shek. Now that Peking has switched back to the "peaceful liberation" of Taiwan, it is only natural that prominent ex-Kuomintang officials, particularly the "rightists," should be given the role of puppets once more.

## Malaya's 5-Year Plan

From D. M. Fenney

Kuala Lumpur

THE MALAYAN five-year development plan seems to be in a happier position than the estimates presented to the council first suggested. The estimates showed that the Government is lagging badly in its plan to spend \$1,138 millions between 1956 and 1960 and showed that by the end of next year

\$638 millions only would have been spent.

The Government proposed in the estimates to spend less than this year including provision for \$20 millions for setting up a Central Bank and \$10 millions as a starter with the Cameron Highlands hydro-electric scheme. This meant that a large number of items had to be pruned.

But the Finance Minister told the council that \$100 millions Brunei loan had altered the situation since the estimates were now drawn up and they would now be able to speed up the plan.

## New Factories for South Vietnam

A NEW leather tannery in the Gia Dinh area of South Vietnam will soon start production. German machinery, purchased with foreign exchange provided through the Commercial Import Program of American aid, is being installed in the new plant which is called the Binh Loi Tannery.

Production capacity will be about 100 hides per day. Domestic supply of raw hide is more than adequate; 50,000 head of oxen were slaughtered in Vietnam last year.

The Michelin Rubber Company of Europe is setting up a plant at Dau Tieng (60 miles North of Saigon) for making rubber tyres and tubes for small vehicles. The district is well covered with rubber trees thus cutting down production costs. The annual output of rubber in Vietnam is about 50,000 tons.

The Brasseries et Glacières de l'Indochine (BGI) and the Vietnamese Government have agreed to form a glass bottle plant which is named the Cong-Ty Thuy-Tinh Vietnam (CTTTVN). BGI and another French firm will own 49 per cent of the shares while the Vietnamese Government will hold 51 per cent of the shares.

Total capital of the new company is 100 million Piastres. Government will sell its shares to the public within three to five years. The plant will have a total production capacity of 17,000 tons per annum.

The Government is about to conclude an agreement with the firm of Parsons and Whittemore for the construction of a paper mill. The mill will have a production capacity of about 10,000 tons of newsprint and other paper per year.

Pine trees from the forests around Dalat will be used, in addition to imported pulp, in the production. The country's annual consumption of paper is about 25,000 tons at present but indications are that it will be much higher in the coming year.

### Japan To Buy More Salt From Thailand

JAPAN'S imports of salt from Thailand this year will surpass the previous annual volume of 100,000 tons.

Every year, Japan has to import about 1,500,000 tons of salt from various sources. In the past, Japan used to procure about one million tons from China and about 100,000 tons from Thailand.

This year, Japan is buying more salt from Thailand on account of the deadlock in her trade with China. During the first nine months of this year, Japan had already bought 160,000 tons of salt from Thailand.

The quality of Thai salt is inferior to that of Chinese salt. Thailand's annual output is also limited. Bangkok must improve the quality and increase the quantity of salt production in order to retain the demand from Japan. Otherwise, Japan would probably resume her imports from China once the trade relations between the two countries return to normal.

### Han-handed?

TAIWAN'S specialist on Tibet and Mongolia, Mr. Li Yung-shin, has claimed that his Government is in contact with 300,000 Tibetans in revolt against their Communist government.

Peking has already admitted that its plans for Communism in this land-locked Buddhist state were over-ambitious. "Conditions are not ripe," a Peking radio commentator declared a little while ago, for social reforms, but these will be made "as soon as the majority of Tibetans and the leaders of the Tibetan people consider it the right time to do so."

Previous allegations that western agents were active in spreading subversion among Tibetans constituted admission that all was not well in the land of the Buddha.

A "rectification" campaign was launched among Communist cadres in Tibet at the beginning of the year, and attempts have been made to rid the Chinese technicians and administrators of "Han superiority" and to eliminate from the

Tibetans themselves the nursing of local nationalism.

Racial jealousies have probably allied with ideological hostility to make things very difficult for the Communists in Tibet. Peking has tried to work through its "Chinese Buddhist Association". A Party official last year explained that the Tibet branch of this body was to "transmit regularly and propagate to the Buddhists the policies, laws and decrees of the Party and government, organise them to engage in study and positively take part in the anti-imperialist and patriotic campaign and the campaign for defending world peace, as well as in various construction undertakings."

But the Party warned its activists that almost every Tibetan believed in Buddha and that a "prudent attitude" and an "earnest respect for the freedom of religious belief" should be shown by Party representatives there.

Tibetans who "engage in study" might well have taken a look at a booklet in the Scientific Socialism series of the International Publishing House, called "Role of Advanced Ideas in Development of Asia." This curious booklet discusses the "class character of religion in Asia" and the rôle of socialism in "combating" and "eradicating" religious superstition. This is an objective that even such an anti-Communist as Mr. Nehru would support, but it is hardly diplomatic in the context of the Tibetan situation.

Reports of uprisings have been coming out of Darjeeling for many months: the Taiwan claim is perhaps the most startling. Time will show if there is real substance in them, but if one thing is clear it is that Peking is no more—and perhaps less—successful in a colonial situation than the western "imperialists" whom it slates.

### Korean Fisticuffs

FISTICUFFS in parliament have crossed the Sea of Japan from Tokyo to Seoul. And the cause is similar: the government's intention to stiffen up its security powers and give the police more rein. In the Japanese case the government had a case for altering the law which it unfortunately spoilt by going too far.

But in South Korea the opposition claims that President Syngman Rhee's proposal to bring in stiff imprisonment

and the death sentence for subversive activities defined rather more freely and vaguely than before, will simply result in the Republic becoming a one-party state, with no freedom of the press.

Police powers need to be stronger in developing Asian countries than in the west, and even in the U.K. the feeling is growing that the police need more backing from the law to carry out their job. The question is whether such a move is *bona fide* or designed to secure party advantage. If the government is to be stronger, is it a good government? The answer is fairly clear in Japan: in Korea one wonders if the opposition does not deserve some sympathy.

### E.C.A.F.E. Transport Study

ASIAN countries should bring their inland transport—roads, railways, rivers and canals—under the control of a single independent national authority. This was the conclusion of an E.C.A.F.E. working party on the Co-ordination of Transport at Bangkok earlier this month.

Existing transport shortages will, as the Working Party stressed, be "seriously aggravated" by the future demands of economic development. Co-ordination will be needed, not to organise the use of existing facilities, but to maximise the usefulness of future capital investment and development in the transport field.

### New Hotel for Saigon?

THE Times of Vietnam reported recently that officials of Pan American Airways were negotiating with Vietnamese interests for the construction of a 300-room, air-conditioned hotel in downtown Saigon. P.A.A. plans to have the hotel ready by mid-1960 when big jet airliners will land at Tan Son Nhut bringing in 125 passengers and tourists per flight.

Following the example of Hongkong, all leading cities in the Far East are frantically preparing to receive the Jet Age. Runways are being widened and stretched, airport facilities enlarged, and new hotels being built in Bangkok, Manila, Rangoon and Saigon. Even Laos is reported to be building a new swanky hotel in anticipation of more tourists.

# WORLD OF EAST ASIA

*Mr. Buu Hoan, a research economist with the Commercial Credit Bank of Saigon, continues in this second article (the first was published last week) his*

*discussion of the impact of the Geneva Peace on the economies of the former Indochinese states.*

## Vietnam: Structure of a Dependent Economy

By Buu Hoan

### Disengagement from the French Franc

AFTER the abrogation of the *Institut d'Emission* and the transfer of the foreign exchange controls of Indochina to each of these independent states, new economic relationships had to be established between France and Vietnam. Monetary and trade relations were defined by the Franco-Vietnamese Agreements of December 30, 1954, complemented by a special agreement for the purchase of piastres for military expenditures in Vietnam. Trade relations were fixed by the Agreements of March 10, 1955.

By virtue of the monetary agreements of 1954, Vietnam agreed to remain in the French Franc Area, i.e., to follow these conditions: (1) its currency, the piastre, should be defined in terms of the franc; (2) current transfers within the Franc Area should be free, and capital transfers should be made as free as possible. Further, Vietnam should allocate 20% of the amount of francs provided by the French military expenditures in Vietnam for capital transfers of French firms; (3) Vietnam should accept the principle of pooling all foreign exchange for the whole Franc Area; (4) Trade Agreements signed by France on behalf of the Franc Area should also cover Vietnam; (5) Foreign exchange regulations in Vietnam should also be drafted according to the same principles as the French ones.

The Paris Agreements affected much of Vietnamese sovereignty. However, they were not wholly unjustified. First, they provided some short-term lending facilities to Vietnam. Second, they assured Vietnamese trade, not only with members of the Franc Area, but also with all countries which have entered into

agreement with France. Membership in the Franc Area enabled Vietnam to use the facilities of the European Payments Union, and hence as long as there were multilateral payments in Western Europe, the problems of multilateral settlements between Vietnam and the outside world were automatically solved.

Third—and this might be the overriding reason—at that time, uncertainty still hung over the amount of American aid as well as its method of transfer.<sup>1</sup> Even until the end of the year 1955, this aid was largely channelled through France, because of inadequate financial machinery in Vietnam and also it was thought that a sudden shrinkage of the French dollar receipts would then embarrass French finances.<sup>2</sup>

The membership of a politically independent nation in a Monetary Union was not something new. All the Asian Dominions of the Commonwealth belonged to the Sterling Area, the structure of which was similar to the Franc Areas. And it seems that monetary cooperation in the Commonwealth has worked efficiently. Unfortunately, such was not the case between France and Vietnam?

<sup>1</sup> The atmosphere of insecurity may be reflected in this recommendation to the Senate Committee on Foreign Relations in October 1954; by Senator Mike Mansfield: "In the event that the Diem government falls... the United States should consider an immediate suspension of all aid to Vietnam and the French Union forces..."

<sup>2</sup> See Myriam S. Farley, *The United States and Indochina*, I.P.R. mimeograph. Some other reasons were presented by Professor Vu quoct Thuc, a delegate to the Paris Conference. "... At the end of 1954, the political situation of the country did not admit of an unmixed optimism. Further liquidation of the former (Indochinese) Monetary Union threatened our economy with an imminent crisis" op. cit. p. 19. The three first reasons are taken from an unpublished document, written by another delegate to the Paris Conference "Notes sur les Accords Monétaires de 30 Decembre 1954."

The uneasiness felt by Vietnam within the Franc Area was largely due to the atmosphere of suspicion existing at the time between the two countries.

However, economic factors had their share of responsibility. As there was no precedent for the establishment of an independent nation within the French Union, the Franc Area authorities had no experience in promoting cooperation among its members of equal states, neither did the Franc Area have institutions similar to, for instance, the informal meetings of the Commonwealth Finance Ministers, or the Sterling Area Statistical Committee wherein to coordinate and exchange all information useful to each member, and where monetary authorities of each member might meet to exchange ideas, or even to settle differences and solve common problems.

Further, the French franc constantly suffered from a slow depreciation due to inflation in France. As the piastre was linked with the franc, it had to follow the same depreciation *vis-à-vis* the currencies of the outside world. Hence, the general price level of Vietnam, as well as of other members of the French franc area, was higher than world prices, and exports to countries outside the franc area were difficult and in general required subsidies to meet outside competition.

Facing these facts, the Vietnamese government informed the French government, on October 1955, that it would not renew the Paris Agreements after December 1955. The Ordinance of November 17, 1955 fixed the piastre in terms of the dollar, each piastre being equivalent to \$0.02857 U.S. (or more exactly 35 piastres to one dollar), hence cutting off the direct link between piastres and francs.

However, the volume of trade with France has not greatly decreased. In 1955, for instance, 57% of the total imports came from France and the French Union. This was due to two types of arrangements, the trade agreements of March 19, 1955 and the so-called Triangular Franc Transactions.

The Trade Agreements fixed the margin of preference for *ad valorem* duty on French products at a range from 4% (for cement and phosphate) to 15% (for cotton cloth, optical goods). The margin of preference conceded by the French Union to Vietnamese products varies from 2% (for maize) to 6% (for salt). In addition, France reserved a preferential market for Vietnamese rice (115,000 tons), and rubber (35,000 tons).

Secondary products of South Vietnam, like matches, also enjoyed a favoured market in the overseas territories of France. South Vietnam agreed to give priority to certain imports from France, e.g., 10,000 tons of milk products, 30,000 tons of wheat flour, and 30,000 tons of raw and refined sugar.

But, when applied, the Agreement proved one-sided. Firstly, Vietnam's production of some commodities like rice fell considerably and was hardly sufficient for home consumption. Secondly, American aid was granted with the proviso that goods should be bought at competitive prices. Many French goods, without government subsidies, could hardly compete in a world market. Hence, the trade agreement was denounced at the end of December 1955, then extended for a temporary period to February 29, 1956. Since then, French imports have been granted the so-called minimum tariff, or the tariff which had been in use prior to April 12, 1955.<sup>3</sup>

The triangular franc arrangement was financed by U.S. farm surplus exports. American cotton was sold to France for francs. These proceeds were then allocated by the United States to Vietnam, to buy French commodities. It was estimated that 21 billion francs worth of imports to Vietnam, out of the total of Fr. 45 billion, were financed through this arrangement during 1955.

Henceforth, commercial relations with France depend: (1) on these short-term commercial arrangements; (2) on the long-standing commercial ties and friendship between Vietnam and France, and the customary contacts among private traders; (3) on the ability of French exporters to compete with other countries.

On the Vietnamese side, many problems arising from the withdrawal from the French Franc Area still remain to be solved. The first problem would be the training, within the shortest time, of a considerable staff of well-educated civil servants, to take care of all such technical tasks inevitably connected with the carrying out of an independent foreign exchange policy; for instance, the establishment of a foreign exchange market, comprising forward dealings as well as spot transactions, or the negotiations of payment arrangements with foreign countries in one form or another.

<sup>3</sup> On that date, the Vietnamese government established two types of tariffs: the General Tariff, which was twice that in force prior to April 1955; and the Minimum Tariff, which was half the General Tariff.

Table VI

Sources and Uses of French Francs (in million piastres)					
Sources of Francs	1955	1954	Uses of Francs	1955	1954
Exports .....	1,073	1,120	Imports .....	2,556	10,302
Transports .....	8		Insurance .....	6	
Tourism .....	3	15	Transports .....	163	
Services .....	2	2	Tourism .....	252	495
			Inc. fm. investment .....	70	5,863
			Services .....	491	3,316
					2,447 <sup>a</sup>
			Remittances to students in France .....	246	
Other invisible items .....	47	292	Other inv. items .....	283	180
French govt. expds. ....	2,000	17,456	Miscellaneous .....	47	
French military aid .....	2,030	4,148	Govt. Expds. ....	65	104
Triangular francs .....	1,312		Payments to "Metropolitan Budget" .....		854
Public investments and war damages .....		1,198	Disinvestments .....	307	986
Totals .....	6,469	24,200	Totals .....	4,489	24,552
Balances .....		352	Balances .....	1,980	
	6,469	24,552		6,469	24,552

Source: Banque Nationale du Vietnam, *Balance Générale des Payments du Vietnam en 1955*, Saigon 1956, pp. 17, 18, 26 and 27.

Notes: Data of 1955 are for Vietnam. Data of 1954 are for the three Associated States of Cambodia, Laos, and Vietnam. According to the National Bank of Vietnam, the share of Vietnam in 1954 was approximately from 70% to 80% of the receipts and payments (*op. cit.*, p. 8). As for the item of "disinvestments," computed for the three Associated States, the share of Vietnam would be at least 95% (*op. cit.*, p. 13). Not included in these statistics are disinvestments from Vietnam to Cambodia and Laos made prior to January 1955.

<sup>a</sup> These services include salaries of French officials and the "French Expeditionary Corps".

The second problem arises from the management of Vietnamese foreign exchange reserves, which had been deposited earlier in the Foreign Exchange Equalization Account of the Bank of France. They should be held in the most conveniently liquid form, so that when need arises for making payments, they may be used in the largest possible part of the world or for the largest possible number of commodities. They should also be invested in such a way as to insure the highest dividend, compatible with the liquidity consideration. Further, they should be "hedged" against inflation in the money market where they are maintained.

The third problem is to find access to any international money and capital markets (or any other organization) willing to lend to Vietnam, if need arises, on short term or on long term. When Vietnam was a member of the French Area, Paris was its banker; the mechanism of transfer was set up in such a way that there were always possibilities of overdrafts for Vietnam. Vietnam could always issue long-term loans in

Paris capital markets, at a price, of course. And, as already mentioned, France offered financial facilities for making international payments, through its membership in E.P.U. The withdrawal from the Franc Area postulates the search for a substitute.

Progress has been made in Vietnam to solve these three problems. A foreign exchange market was established in Saigon in 1956. The National Bank of Vietnam has sent many of its staff members to Paris and to New York to be trained in banking and finance. Foreign reserve assets have been invested (in general in treasury bills, prime bankers' acceptances, and term deposits in the New York money market).

It should be remembered however that these first lessons in international finance have been made easy, thanks to: (1) the magnitude of American aid in relation to our financial needs; (2) the dominant position of the dollar as an international currency; (3) the rate of inflation in the New York money market, as compared with the higher rate of inflation elsewhere. If one of these

conditions changes, the problems may appear more complicated. Vietnam has not yet known the problem of the dollar gap. It might happen that a need for hard currencies will appear in the future, and means should be sought now to avoid the return to the awkward barter system, or the bilateral pattern of foreign trade and settlements.

Another problem, which was the sore point among French businessmen, was concerned with the transfer of dividends and profits of French firms operating in Vietnam. A brief review of how these transfers had been covered in the past would help elucidate the problem.

Prior to 1940, remittances originating from investment income, pensions, salaries, gifts and so on, were so large—sometimes twice as large as the export surplus<sup>4</sup>—that unless the trade balance was very favourable, the current accounts could not be in balance. At that time, however, this outflow was largely offset by an inflow of capital arising from French private investment, and Indo-Chinese government loans from the Paris capital markets.

From 1940 to 1945, thanks to the Exchange Agreements between France and Japan, the favourable balance of trade was unusually large, with the consequential accumulation of reserves in yen and in other foreign exchange holdings. Part of these holdings were purchased by the French Metropolitan Foreign Exchange Office, which then provided French francs to cover the repatriation of earnings from Indochina to France.

From 1946 to 1954, the trade balance position was the reverse: there was no more export surplus. Transfer items were assured by the franc proceeds arising from French military expenditure in Indochina. Since Geneva, trade balance deficits have remained substantial. In 1955, exports to France and other parts of the French Union could cover only 45% of imports from France (see Table VI). On the other hand, demand for financial transfers, on current accounts as well as on capital accounts, has increased at a staggering rate. Transfers of profits (including revenues and other services, but not including savings of French officials and soldiers) rose from Pr. 6,123 million in 1953 to Pr. 9,493 million in 1954.

The Indochinese Foreign Exchange Office authorized in that year an outflow of capital of Pr. 844 million, the highest amount which had ever been recorded. In 1955, the pendulum swung back to the other extreme. Financial transfers were reduced to about one-tenth of what they had been in 1954, while the outflow of capital dwindled by two-thirds (see Table VI). As a result, reserves in francs increased to about two billion piastres.

What would be, in the future, the attitude of Vietnam with regard to the problem of transfer of profits of French firms? A policy of rigid controls would not only fail to attract new foreign investments, but also would contribute to creating a climate in which existing investments would be withdrawn. Such a policy would discourage the coming of foreign experts and technicians and would stop the inflow of know-how. Further, in periods of rising prices, part of the income which would not be transferred abroad would be spent in the home market, contributing to the increase of inflation and hence defeat the very purpose of a rigid control policy, namely the maintenance of confidence in the piastre.<sup>5</sup>

A liberal policy should be recommended, with two qualifications, firstly, a technique should be devised to make possible the not-so-easy distinction between capital transfers and current transfers, so as to avoid capital flight. Secondly, the policy should be carried out with due regard for other demands for French francs arising from other invisible items of the balance of payments. It should be remembered that many financial transfers could not be covered by United States aid, such as insurance, premiums, commission charges, etc. Expenditures of the

government in France, tourism, remittances to some 10,000 students in France loom very large among invisible items of the Vietnamese balance of payments.

At the present time, the supply of francs is dwindling. French military expenditure came to an end in June 1956. Current sources in francs are: (1) exports to France (estimated at one billion piastres in 1956); (2) triangular francs (three billion piastres were allocated for 1956). In case of emergency, Vietnam could use its reserves in francs, and/or the free dollar funds (i.e., funds not accountable to the International Cooperation Administration). The two last items have been used, for understandable reasons, with great parsimony. The two first items are, at best, just enough to cover payments for imports from France, and some other important items on the current accounts.

### Transfer of Profits

To solve the problem of transfers of profits many suggestions have been presented. It is recommended for instance that American aid should be enlarged in such a way as to cover the payment of investment income. A flexibility in the use of International Aid should always be sought. However, there are many practical difficulties to deal with here. In the first place, there is the question of amending American foreign aid legislation. Then, there may be the necessity for the aid-giving country to intervene in the foreign exchange controls of the aid-receiving country, without which intervention the donors may land themselves in this hasten the process of disinvestment in a paradoxical situation: their aid may country they intend to assist.

A second suggestion made by Mr. Paul Bernard is worth nothing. In a recently published analysis of the new relationship between France and Vietnam, he wrote: "France cannot refuse to respond to legitimate requests by the Vietnamese concerning a share of economic responsibility in their country. This may be attained by organizing mixed ventures, which will take the place of the present entirely French-owned enterprises. Such a Vietnamese participation would help decrease the acuteness of the problem of financial transfers of profits. These transfers are now a burden on the balance of payments of Vietnam, a burden which

<sup>4</sup> "Balance de Payements de l'Indochine," in *Revue Indochinoise Economique et Juridique*, Saigon, 1939.

<sup>5</sup> It should be mentioned here that it is very much arguable to suppose that an accumulation of foreign reserves would help maintain the confidence in the piastre, or that as long as there is adequate cover in gold or in foreign currencies for the issue of local currencies there is no inflation. This concept is no more than another fossil of the gold-standard age. To the extent the central banker brandished this conceptual weapon to refuse granting advances to the government the economist has no objection. If it is used to restrict import (including invisible items), particularly during a period of rising prices, it may be disastrous. Our language has also its share of responsibility in shaping this concept. The Vietnamese word for inflation is *lam phat* (*lam*: abuse; *phat*: issue) which means literally: a bad issue of currency.

that country has proved unable to surmount.... The Vietnamese participations should be paid back over a relatively long period, and annuities of amortization, for rubber and for tea for instance, may be expressed in terms of rubber or of tea....<sup>6</sup>

### A Dependent Economy

During the process of disintegration of the Indochinese Union, and of the dissolution of all ties which had been imposed on Vietnam, one thing has remained unaltered, the *dependent* character of the Vietnamese economy.

In point of fact, after eighty years under French administration, Vietnam has changed from a static, agricultural and self-sufficient economy into an export and colonial economy. Political independence is not enough to reverse this trend overnight. Worse still, with its production inevitably disrupted by ten years of destruction, Vietnam has emerged from Geneva more economically dependent, not less. Or, more precisely, changes in national income of Vietnam are still very heavily determined by external factors. This point may be brought out in Table VII.

Table VII

National Income, Gross Private Investments, Total Government Expenditures, and Exports				
	National Income	Gross Private Investments	Total Gov. Expend.	Mil. Aid
Vietnam 1954 .....	102,019	5,000	15,276	(2,744) (15,270)

Source: Banque Nationale du Vietnam, *Estimations du Révénu du Vietnam en 1954, Saigon 1956.*

Gross private (foreign financed and domestic financed) investment, total government expenditures, exports and military aid, are selected as the key components of national income, for it is generally believed that these independent variables are the overriding causes of income fluctuations. Prior to World War II, 78% in average of total private investment came from France. Hence, the magnitude and the timing of investment were determined largely by conditions prevailing in the Paris money and capital markets, and not at home. In 1954, domestic private investment was insignificant (hardly 4% of G.N.P.).

Prior to 1939, exports were large relative to National Income (for instance, they were about 25% in 1937). In 1954, exports were about 2% of national income,

depends on the volume of our exports as a percentage of world supplies.

The exports of Vietnam, after the partition, were quite negligible with regard to world supplies. In 1955, its total production of rubber was about 3% of world production. Exports of rice fell from 176 thousand to 81 thousand tons and were a fraction of the production of E.C.A.F.E. regions (estimated at 70 million tons in 1954). The general decline in world prices for rice in 1953 for instance, which strongly affected the balance of payments of Vietnam, was entirely beyond the control of Vietnam.

The economic dependence of Vietnam is further aggravated by the degree of its export concentration. Prior to 1940, rice represented by itself 60% of the total export value. Its production fell considerably, owing to war devastation, and rubber took its place. Rice and rubber

alone accounted for 79% in 1953, 81% in 1954 and 70% in 1955.

The internal structure of an economic dependency may be revealed by the analysis of various components of the Gross National Product. If the margin of error of the estimates made by the National Bank of Vietnam were reasonably narrow, the economic structure of Vietnam in 1954 would be as shown in Table VIII.

The market structure of an economic dependency is in general characterized by the high degree of monopolistic (or monopsonistic) power exerted by foreign firms, with the consequent widening of the gap between the modern sectors and the primitive sectors.

In the domestic rice market, for instance, the Chinese had an actual control over prices. All the predatory preclusive practices used by the Chinese middleman to organize a comprehensive system of paddy purchasing which "covers Cochinchina and Cambodia without a gap"<sup>7</sup> have been often described<sup>8</sup>. By combining usury with trade, controlling river transports, and establishing closed trade unions, "he made it practically impossible for the rice miller to buy paddy directly from farmers; the miller could purchase rice only through his intermediary: also, it was very difficult for indigenous landowners to attempt to bring paddy to the rice miller at Cholon or any other city<sup>9</sup> ...." This monopsony was harmful, for it reduced the farmer to a permanent stage of indebtedness. The remedy should be sought in cooperative marketing, and in price and profit controls, in state marketing agencies, or in breaking up any illicit system of collusion.

The type of monopoly prevalent in various branches of industry was of a different kind. There existed close ownership links developing between various economic sectors, between banking, insurance, commerce, transports, real estate, hotels, theatres, plantations, manufacturing, and so on. In point of fact it was the main process by which Vietnam had been industrially developed. Concentration of capital was effected through the *banques d'affaires*, which purchased a large share of stocks in many

<sup>7</sup> Robequain, *op. cit.*, p. 38.

<sup>8</sup> For a detailed description, see Henry, Yves, *Economie Agricole de l'Indochine*, Hanoi, 1932, Wang Wen Yan, *Les Relations entre l'Indochine française et la Chine*, Paris, 1937 Purcell, London, 1951, pp. 238-240. Charles Robequain, pp. 32-4.

<sup>9</sup> Wang Wen Yan, *op. cit.*, p. 39.

<sup>6</sup> Paul Bernard, "La France et la Vietnam," in *l'Information* (a daily) Paris, issues of from March 21 to March 30, 1956.

joint stock companies and controlled them, by having their representatives on the administrative boards. Banks also provided their companies with continuous advances, or purchased from them new bond issues, thus, "combining the role of controlling stockholder with that of the first creditor."

Many companies operated not only in France or in Indochina, but also in neighbouring countries. The result was that competition was almost nonexistent. Each manufacturing firm in general produced from about 75% to 90% of the whole production of Indochina<sup>10</sup>. To a great extent, this type of monopoly fulfilled a certain role in the development of Indochina. With huge concentrations of capital, it could afford to spend the large amounts needed for research and development.

The work done in rubber plantations in Vietnam was an illustration of this case. As Professor Robequain wrote: "This monopolistic tendency is certainly not peculiar to Indochina, but it seems to have developed further than, say, in the two largest rubber producing countries, British Malaya and the Netherlands Indies." The Indochinese system seems conducive to improved methods and increased yields.<sup>11</sup> Furthermore, monopoly was considered a necessity in a newly developed country, where the number of entrepreneurs was small, and investment risky.

However, the demerits of monopoly as it was applied in Indochina more than offset its advantages. In actuality, there was no freedom of entry for the nationals. In an underdeveloped country like Vietnam, monopoly would encourage the concentration of political power in the hands of a small minority at the expense of the majority. Finally, the argument for monopoly which is based on the high levels of savings and profits required by developing countries could not be applied in Vietnam, for more often than not, savings and profits were transferred outside the country.

Dualism is another characteristic of a dependent country. French capital and technology set up modern highly productive operations for extracting raw

materials to be exported to the industrial countries, while age-old practices have continued almost unchanged in every other segment of the economy. Side by side with large-scale, rubber plantations with their modern system of grafting, their artificial fertilization, scientific tapping methods, laboratories, research institute, there co-existed immense paddy fields, where the peasants still work with the same method as was practiced by their ancestors some hundred years ago. The areas cultivated were extended under French administration, thanks to considerable drainage work, but changes in farm methods have never been spectacular. A research institute for rice, The Indo-chinese Rice Office, was established in 1930 at the suggestion of the dynamic agricultural engineer, Yves Henry, but its budget was too small to make any positive contribution to Vietnamese agriculture.

of this organizational structure was that there existed a wide gap between rural and urban areas.

This dichotomy appeared to widen recently. During the war period, while big cities benefited from an unprecedented boom generated by war expenditures, the farmers had to bear the military burden. Guerrillas in South Vietnam fought largely in rice fields. The conflict took a heavy toll from the peasants, in a number of vital ways—through the neglect of land, the destruction of dikes, the decline in the number of buffalo and other livestock, and the absorption of young men in the army. This burden, in 1954, might have reached the breaking point. Many farmers left their plots of land, and flocked into urban areas (particularly the Saigon, Cholon areas), adding to the problems of unemployment already existing there.

Table VIII

	Gross National Product by Origin at Market Prices (in million piastres).					
	1954	%	1937	%	1931	%
Agriculture, including rubber .....	29,363	25	494	50	311	50
Livestock .....	—	—	33	8	48	7
Forestry .....	48	—	38	8	30	5
Fishery .....	7,500	7	20	2	4	1
Mining .....	897	—	19	2	15	2
Manufacturing .....	6,817	5	180	19	128	12
Wholesale and retail trade .....	23,200	20	—	—	56	9
Construction .....	800	—	—	—	—	—
Transportation, communication, public utilities .....	3,780	3	—	—	—	—
Ownership of dwelling .....	9,136	8	140	14	87	14
Public Administration, Defense .....	21,967	19	—	—	—	—
Other Services .....	14,864	13	—	—	—	—
Total .....	119,322	100	1,014	100	621	100

Notes: The data presented here are not wholly comparable, owing to differences of methods of estimates. Estimates for 1937 are used for the whole of Indochina, whereas estimates for 1954 and 1931 are for undivided Vietnam.

Source: For the year 1954, Banque Nationale du Vietnam, *Estimations du Révénue National du Vietnam en 1954*, Saigon 1956, p. 15.

For 1937: according to a study published by the "Societe d'Etudes et d'Informations Economiques," as reproduced in Dr. Andre George, *Autonomie économique, coopération internationale et changements du structure en Indochine*, Paris, 1954, p. 25.

For 1931: Paul Bernard, *Le Problème économique indochinois*, Paris, 1954.

In the domain of credit, while the modern sector, particularly foreign trade and important industries, was well catered to by commercial banks, the needs of small-scale business and agriculture were provided by the indigenous money lenders, Chinese traders, Chettiaris, credit clubs, and not-so-successful credit cooperatives. With the exception of the latter, all other creditors constituted the so-called unorganized money market, which was unorganized in more than one sense: it lent at onerous rates of interest and its methods of bookkeeping and collection were very primitive. The result

Dual economy on the logical ground could not exist. For, given enough time, economic forces set in motion in one particular point of the economy would lead to modernization of the rest of the economy. Training in new skills, injection of purchasing power through wage and other payments, and establishment of transport and communication lines should stimulate economic growth. Why was it that such automatic processes did not take hold, to become self-generating?

The reason may be found in the fact that when the economy relied on a *laissez-faire* policy, with the State a little

<sup>10</sup> See various tables in Dr. André George, *op. cit.*, pp. 50-57, and Robequain *op. cit.*, pp. 248-284. To my knowledge, there have not yet been any systematic studies on the various problems of market structure in underdeveloped countries. But if we like to see underdeveloped countries follow the pattern of free enterprise, that, I think, is the point at which to start.

<sup>11</sup> Robequain, *op. cit.*, pp. 208-9.

one-sided in favour of one group, a distinctly unbalanced or lop-sided development is likely to result. The conservative nature of farmers constituted another obstacle to change. This tendency was aggravated by the fact that innovation did not come as the result of slow development of internal forces within the country, but rather from the outside.

Further, the foreign language, in which knowledge of innovations was transmitted, insulated them to a certain extent from the reach of the common man, and prevented them from propagating any further. The absence of national entrepreneurs, for which the monopolistic structure mentioned above had to share the blame, was such that innovations would not be absorbed and applied in other sectors. There did not exist a real climate where initially from the Vietnamese was encouraged and developed, the spirit of adventure stimulated, and the risk-taking attitude rewarded. This

dichotomy is one of the most challenging problems facing the Republic of Vietnam.

On the one side, the leadership elite, schooled in Western ideas, and whose socio-economic attitude tends to run ahead of the actual economic situation of the country, is concentrated in the cities. On the other side, are the mass of farm and village people with their resistance to innovation and who lag far behind their urban compatriots in interest and will for change.

As this gap between them yawns wide, and threatens to be over-widening, assistance, protection and leadership cannot be easily extended from the former group to the latter. By their number (officially estimated at 85% of the population), rural people should be influential in the determination of the pace of economic growth. Until the gap is somehow filled, little, or only superficial progress can be made.

(To be concluded)

*Mr. Newton discusses the obsessive Communist Chinese government campaign to produce 10.7 million tons of steel this year.*

## The Chinese Steel Conundrum

By Wyndham Newton

WHILE the large-scale, efficient modern steelworks in China have to depend on a great deal of scrap-metal dug up from backyards and the Port Arthur sea-bottom to keep themselves fed, millions of native, primitive furnaces are absorbing vast supplies of iron ore and coal and turning out an inferior product useless for steel-making whose improvement is admitted by the Communist Party Press to be "a matter of burning urgency."

Although Chairman Mao Tse-tung, on his return from a tour of Wuhan and the Yangtze region in September, sharply criticised Party officials who regarded the mass line in local industrialisation with contempt as belonging to the guerilla days of the regime, serious reservations have since been expressed on the quality and value of the output of the many thousands of primitive blast furnaces which are now dotted over the vast countryside.

Through its major mouthpiece in Peking the Party directed the attention of the pessimists to the quantitative success of the mass movement, which brought the doubling of steel production within sight.

But though the campaign did "advance at a speed beyond imagination," nobody could yet sleep on a high pillow, free from care. Quality alas, was much less successful, and had become a vital problem. It was admitted that much of the pig iron now produced by these native factories was useless for the making of steel, or even for casting, since the phosphorus and sulphur content were much too high.

The result was that steel output had been retarded. Pig-iron made in the modern furnaces was inadequate to meet the demands of the makers of steel, and three-quarters of the steel target had to be met from iron processed in the native furnaces. Improvement of the quality of native iron had thus become "a matter of burning urgency."

The Party line hitherto had been that the only way to quality was through quantity, no matter how inferior—a costly business of trial and error and very wasteful both of coal and of ore. That remains the correct attitude, though the experts declare that the quality of the iron is altogether too poor for steel-making and

that it is the intrinsic limitations of the small native furnaces which are responsible for this. The Party spokesmen retort that intrinsic limitations can be changed, for are not quality and quantity related in dialectics? Without quantity, there can be no quality; only with quantity can there be quality. Everything develops from a low to a high plane, rising steadily, "and steel and iron production are no exception."

At the time when the C.C.P. Central Committee set the target of 10.7 million tons of steel for 1958, the national output for the first eight months to August was only slightly over 4m. tons. Thus in the four months remaining no less than 6m. tons of steel had to be produced. To fail to fulfil a target was quite unheard of, and Party folk and all others had to solve this contradiction. At first the principal contradiction was insufficiency of pig-iron. Now the question of quantity had been basically settled—why should not the issue of quality also yield to the mass line?

Some counties—and 40 in Szechuan alone were mentioned—had actually solved the question of quality. The sceptics doubtless felt disposed to reply that they had only the word of the local Party cadres for this and that it was against the admittedly general experience. But it is then practically admitted that the present status of production by native furnaces is purely experimental and that in time judgment will be passed on quality and on the various methods used. Thereafter production may be standardised.

Already, in fact, the authorities are moving away from mass universality which often required covering large distances both by miners and by the ore or coal, to a selective system of priorities which would take full note of the location of the two indispensable components of the making of pig-iron and steel. It is also suggested that there should be a gradual development of both native and modern equipment in small iron and steel complexes, with better controls of movement and of methods with the aim of bringing production to a higher level of quality and operation.

The Party First Secretaries from the Provinces, meeting in a national conference ending in mid-November, naturally congratulated themselves on the way they had mobilised the whole people and on its effectiveness in increasing output—declaring that altogether 60 million people had joined in the campaign and that over a million small iron and steel furnaces had been built, which were now "an important part of China's iron and steel industry because of their great number."

The conference proclaimed the view that in its scale and effect, this nation-wide campaign was "unprecedented in the history of industrial development." That is quite true. Certainly the Russians never thought of utilising such a mass method for increasing steel output, for they, like the Americans and all other major steel nations—and for that matter India too—looked to the large-scale units of the most modern construction to meet the needs. And there can be no doubt whatever that this is the ideal way of doing things.

It will be interesting later on to discover just how much waste of coal and iron—not to speak of herculean labours—is involved in this worship of the mass line. But even the Party Secretaries noted a few of the drawbacks. They had to accept the mass line principle without equivocation, since it had come down to them from on high in undebatable terms. The conference thus had no option but to agree to the extension of the movement on an even broader scale. But it did agree that development required to be "consolidated," and the existing furnaces improved.

The conference noted that steps being taken to this end included the setting up of iron and steel centres. Small complexes are being established at places where resources were available and communications convenient, for iron and steel, copper and coal, and combinations of industry. The best types of furnaces are being selected and popularised and extra furnaces set up, while regular staff and volunteer shock brigades are being organised in place of the present swarming chaos, and leadership fixed. The conference also placed great emphasis on the need for technical improvements to raise the level of quality. The local type furnaces must proceed from the primitive to a higher level, and from handicraft to mechanisation.

It was asserted that the result of the campaign even in the large-scale modern works had also been appreciable, with production targets again and again revised upward, a "Communist readiness to break old technical norms and introduce innovations" infused, and many new products turned out. China, it was asserted, had found the right road to the problems of developing industry with great rapidity. The mass movement in industry had led to a rate of growth similar to that in agriculture—no longer a few or a few dozen per cent but 100 per cent or more.

The participation in industry of the peasants who make up five-sixths of China's 600 million was another aspect noted by the conference as an important gain. Not only would the participation of 60 million peasants in industry help it to grow rapidly: the differences between workers and peasants would thereby gradually be minimised.

Moreover, there had been as a result a more even distribution of industry over China's vast countryside with the building of the many smelting furnaces everywhere. Provinces and autonomous regions that had never before turned out steel were now turning out hundreds of thousands of tons.

Henan, for example, formerly produced not a single ton of steel, yet it made

300,000 tons in October. It was also held that the spread of technical innovation among the workers and peasants and the participation of the intellectuals in productive labour had also contributed to the lessening of the differences between mental and manual labour.

There is a good deal in all this, but it is almost certain that when the time comes to tell the truth, it will be found that at least half of the labour and material devoted to this immense campaign was sheer waste because of the inability to process the output of the primitive furnaces save for cast-iron and other articles for use on the farms and the rural areas generally. In the meantime the large-scale steel industries have been forced to extremes in feeding the furnaces with scrap metal.

*Peking hopes to achieve absolute power by controlling the thought of the young generation.*

## Harnessing China's Youth To Communism

By Richard Ying

WHEN Julius Caesar was the dictator of the Roman Empire more than 2,000 years ago, he wondered how he might further strengthen his dictatorship by controlling the mind of his subjects. Today, Communists in China are solving this problem by forcing ideological reform on its people with particular emphasis on the communist indoctrination of the young generation.

### "Loyal Sons and Daughters"

At the second national conference of Active Young Builders of Socialism held last month in Peking, Vice-Chairman Chu Teh, standing in front of a life-size statue of Chairman Mao, congratulated 5,000 representatives from all over China on their work in all fields of socialist construction and urged them to exert their utmost efforts to achieve greater, faster, better and more economical results.

Opening the conference, Liu Hsi-yuan, Chairman of the National Committee of the All-China Youth Federation, said: "The youth of China deserve to be regarded as the loyal sons and daughters of the Communist Party and Chairman Mao Tse-tung. They have made brilliant achievements on all fronts during the past three years since the first conference in 1955."

About half the delegates were representatives of outstanding groups. The majority ranged from 19 to 25 years of age, the youngest was 11 and more than 800 were women. Occupations of the delegates included steel smelters, machineists, construction workers, chemical workers, weavers and spinners, postmen and telegraph operators, lorry and locomotive drivers, service workers and lumber jacks, peasants, fishermen, hunters, shop assistants, research workers, teachers, students, doctors and nurses, artists and sportsmen, militiamen and heroes of the People's Liberation Army.

### "Our Hopes are Placed on You"

In his speech on behalf of the C.C.P., Chu Teh cajoled: "To build socialism is a great and glorious historical task. It requires hard struggle by the people throughout the land and demands, too, that the young people play a shock-brigade role in this great and glorious cause. During the great leap forward this year, many young people under the leadership of the C.C.P. developed the communist style of thinking, speaking and acting with daring and courage. They worked day and night irrespective of pay or working conditions. This noble communist spirit is the important

reason behind our tremendous achievements.

"This noble communist spirit must continue. We are faced with very many new problems and much difficult work. To avoid going astray or behaving like Utopians, to avoid making big mistakes, we must master the weapons of Marxist-Leninist theory and Mao Tse-tung's ideology, acquire cultural, scientific and technical knowledge more quickly. Next year will be the decisive one in the context for three years of hard work to fundamentally change the appearance of the motherland.

"On you, the generation of youth, the C.C.P. and Chairman Mao pin their greatest hopes. Chairman Mao has said: 'The world is yours as well as ours but in the long run is yours. You young people, full of vigour and vitality, are in the prime of life like the sun at eight or nine in the morning. Our hopes are placed on you.'

### Educational Growth

Peking is sparing no efforts to expand the facilities for education in China. According to the *Peking Review* (December 2, 1958), China now has 1,408 colleges and universities, 150,000 middle and secondary technical schools and 950,000 primary schools representing increases of 500%, 1,100% and 73% respectively over 1957. Enrolment in higher educational institutions is now 790,000 (not including spare-time colleges), in middle and secondary technical schools 14 million, and in primary schools 92 million representing increases of 79%, 98% and 43% over corresponding 1957 figures.

The importance of this movement is Peking's policy in education. According to a directive on educational work issued by the Central Committee of the Chinese Communist Party, the Party's line in educational work is that education serves the politics of the proletariat and education is combined with productive labour.

"Only under the Party's leadership can educational work serve effectively the socialist revolution and play its role in eliminating the remnants of the exploiting classes and systems of exploitation. An all-round developed new man of Communist society is one who has both political awareness and culture and is capable of doing both mental and manual labour. He is totally different from the bourgeois intellectual of the old society who may be vocationally proficient but

lacks socialist consciousness and is divorced from productive labour," the directive pointed out.

### The Response

The response from the young generation to the Party's call has been very encouraging. According to Hu Yao-pan, First Secretary of the Central Committee of the Communist Youth League of China, the young workers, accounting for more than half of all the Chinese workers and administrative staffs, "have constantly broken production norms and have made many important inventions and innovations." Hu Yao-pan also reported: "The nearly 100 million young peasants of our country have been organized into millions of shock brigades and have been constantly at hand in places where the production tasks are most urgent."

The university and college students have also warmly responded to the Party's call of 'making education serve the political aims of the proletariat and combining education with productive labour.' In the past few months, students throughout the country, according to the *New China News Agency*, have set up thousands of medium and small factories and planted over two million *mou* (one *mou* is 1/15th of a hectare) of farmland.

In a message of greetings sent to the armed forces on the Fukien front by the national conference of Active Young Builders of Socialism, the 5,000 representatives of China's new generation vowed: "If the U.S. imperialists dare to launch a war in the Taiwan Straits area, then all the youth in China will immediately take up arms at the call of the motherland, march to the front and fight beside you to smash the skull of the war makers and wipe them out completely."

In the wild North West, young builders are constructing roads, bridges and other projects without proper equipment and engineering advice. At the Young Activists conference in Peking, Tao Wei-min, a young worker in Kansu Province, related how he and his comrades built an irrigation canal cutting across rocky precipices and bridging the torrential Yellow River with hand tools and improvised machines:

"There were some very dangerous sections, but none of us turned back because we knew that we were working to build socialism in our remote part of the

country. The first difficult and dangerous job was to blast open an inroad across a perpendicular cliff which rises 80 metres above the Yellow River.

"A young comrade volunteered and descended from the top of the cliff by hanging on to ropes, and set off 15 charges to do the job. Then came the arduous task of driving a tunnel through another rocky precipice on the opposite bank of the river. A cable-way had to be thrown across the river. But it was the flood season and the river was turbulent.

"A number of workers first tried to cross on sheepskin rafts but failed each time they went a few metres away from the bank. Finally, one young worker carrying a coil of rope flung himself into the raging waters. He made it and our cable-way across the river was built."

Tao also disclosed that the builders had neither steel nor cement to build the bridge across the river, nor any equipment for working underwater. This story prompts several thoughts—the reliability of the bridges and other constructions done without proper material, equipment and engineering planning and supervision; the human sacrifice behind all China's industrial achievements; and the apparent success of Peking's indoctrination programme.

### Peking not Satisfied

Mao and his lieutenants, however, are not satisfied with the results. They find that sons and daughters from bourgeois families have a deep-rooted desire for individual freedom. The C.C.P. therefore aims to build a solid foundation for their dictatorship on the support from sons and daughters of worker-peasant origin.

At present, students of worker and peasant origin in higher educational institutes account for only 36% of the total enrolment. This is inadequate from Peking's point of view because over 80% of China's population consists of workers and peasants.

In schools and universities throughout China, children of worker-peasant origin now have priority in enrolment and other considerations. Some special institutes, such as the People's Diplomatic Institute, are open only to sons and daughters of workers and peasants.

The picture will therefore be different after 10 years. By that time, the majority of students in China's higher educational institutes will be children of worker-peasant origin. In another 5 years, they will take up important positions throughout the country. These youngsters will

be aggressive towards the Western World with blind hatred but obedient to the Communist Party with near-congenital loyalty.

Mao Tse-tung will then achieve what

*Communist China has once more decided to train doctors in native medicine.*

## Peking and Traditional Medicine

By Wyndham Newton

THE CAMPAIGN of the Communist Party hierarchy in China to unite Western and native medicine and their practitioners failed in face of the firm and somewhat contemptuous front set up by the great body of modern physicians and surgeons in China, who held it was absurd in this atomic age to go back to the nostrums and superstitions of 2,000 years ago.

Now the Party has decreed a much more modest experiment, providing for the taking of courses in the old medicine by picked young doctors trained in the Western style who must be about 30 years of age, be members of the Party or Youth League, be leftist in trend and sympathetic to the Party line on medicine. The objective is a group of 2,000 doctors trained in both types.

A Party group in the Ministry of Public Health—not the professional members of that Ministry if there are any—put forward various suggestions to the Central Committee of the C.C.P. in Peking concerning the study of traditional medicine by doctors of Western medicine. A rather curt directive from the Central Committee announced their acceptance of these proposals and hence Western-trained doctors have to sit at the feet of the native practitioners, few of whom are even capable of expounding in lecture form any of the major aspects of their medical doctrines.

The Central Committee declared that native medicine contained "a wealth of experience and theoretical knowledge acquired by the Chinese people in their struggle against disease and is a great treasury which we must continue to dig and improve." Accordingly pursuant to the Central Committee's orders, the Ministry of Public Health has opened a course in traditional medicine for doctors of Western medicine.

Only those who have attained the standard of university graduates and have had two or three years' clinical experience are required to attend these two-year

Julius Caesar had failed—absolute power. And the Free World will face a greater threat than it had ever experienced in the past.

between the Party ideologues and the doctors. The latter, when told of the value of native medicine, could always retort that the Party leaders took good care to be treated at Yenan by the foreign sympathisers like the Canadian idealist Dr. Bethune and the Jewish refugee and Indian doctors who served them or to make good use of the mission hospitals in the earlier days when they still functioned in the interior.

The earlier schemes to get the two schools together was probably well meant, though they did not seem to get very far. The current resumption of the effort seems to have a punitive atmosphere about it as indeed have all the directives involving the experts and intellectuals during the past 18 months. Certainly the move will not enhance China's moral prestige abroad or even in the Communist bloc, where no such things exist as native schools of medicine and where there are no such shortages of doctors and nurses as exist in China.

The one good thing to be said for the native practitioners is that the people have faith in them, and that there is nobody else to attend to them anyway. So even a quack is better than no one. But it is a remarkably backward step to study things of 2,000 years ago in the atomic age, as the doctors told the Party zealots.

Professor Kilborn, Professor of Physiology of the University of Hongkong—under whose auspices the first international symposium of medical science to be held in Hongkong since the second world war—referred to the competition in this part of the world between traditional and ancient systems of medicine and the modern scientific medicine for the people's confidence. Too often, he said, arguments in support of a traditional system are based on the use, by practitioners of that system, of an effective remedy. How often have we heard it said that there must be something of great value in the ancient system of Chinese medicine because *ma huang* (which has been used for centuries by Chinese practitioners) had been shown to contain a valuable active principle—ephedrine.

"I have even heard this advanced as a reason for believing that the pulse lore of the ancients and even acupuncture should be introduced into modern medicine! . . . If we carry this argument to its logical conclusion, all of us should be concentrating our attention on whatever primitive system of medicine prevailed in South America 300 years ago, for that continent has contributed more than its share of effective remedies to mankind—quinine, cocaine, emetine, and curare . . ." In

courses. "If their standard of Chinese is such that they can read books on traditional medicine," loftily says the directive, "so much the better." Thus, in two years' time there should be about 2,000 "high-class doctors versed in both traditional medicine and Western medicine, including possibly several distinguished theoreticians." And, goes on the Directive in rather a menacing tone, "this is an important matter which must not be regarded as a commonplace. You are requested to take positive measures."

And so the doctors trained in universities have to eat humble pie and take these courses, which will, of course, include Marxist ideology, though the crying need in China is to train more and more modern, scientific medical men to meet the enormous needs throughout the interior since all the Mission hospitals were closed and their personnel deported or imprisoned.

### Party's Difficulty

The Party officials have always had peculiar difficulty in persuading doctors, engineers and scientists generally of their omniscience. Though they have a thousand and one ways of inviting them to expose their ignorance, the Party chaps are not without ways almost as prolific of humiliating them. They did once try to solve the practical problems confronting them, arising out of a great scarcity of doctors even in the cities and industrial and mining areas and the complete lack of Western-trained doctors throughout the interior, by trying to get scientific doctors together in conference with the unscientific native practitioners on the pretext that both could learn plenty from each other.

The effort was not noticeably successful and was not sustained. The two types could hardly speak the same language in the medical sense, and the constant pressure brought to bear upon the Western-trained doctors did not improve relations

this matter, he added, national pride is also a factor and when this is coupled with a complete lack of scientific objectivity, we have the spectacle of official government support being given to some pre-scientific system."

Doctors on the mainland would probably say, if they dared, that there is a lot of pride, envy and all uncharitableness, and even a mean desire for revenge, in the Party's attitude, for few have resented more than the professional doctors the arrogance of the Party officials. The first courses in native medicine for Western-trained doctors were unimpressive. It is hard to discover just what results were attained by the earlier ventures in this field, but they seem meagre.

Some doctors were required to study native medicine at their posts. Six courses, with 303 students, were organised for the purpose of fostering leading elements to undertake traditional therapy, teaching of traditional medicine, and the study thereof to prepare them to teach doctors of Western medicine. Actually the first course opened in December 1955 with only 76 students, all of whom were young doctors of Western medicine under 40 years old. Most of them were members either of the Party or of the Youth League.

Of course, dialectical materialism figured prominently in all courses together with the Party line on this matter, which began the course.

Then came the fundamental theories and principles of native *materia medica* imparted by teachers of traditional medicine. In six months the students had acquired the ability to read any medical works by the native medicine-men and went on to study clinical medicine for seven months, linking classroom instruction with clinical practice. Finally there was 15 months' clinical practice. The students were spread over the larger cities to carry on practice under experienced native doctors.

There appeared to be only a small number who went beyond mere obedience to orders. The Party officials, reporting to the Ministry, admitted that "owing to the impact of subservience to bourgeois academic thought, to which they had long been subjected," many of them had strong prejudices against, and cast serious doubts upon native medicine, which they held to be unscientific and backward. It was a waste of time, manpower and talent, they argued, for doctors of Western medicine to study traditional medicine.

What is more, in many cases the Party

### THE COMMUNES TO SEPTEMBER

Statistics on People's Communes Established in the Various Provinces, Autonomous Regions, and Municipalities Directly under the Central Government (up to the end of September 1958).

	Communes Set Up	Rural Households in Communes Number	% of Total	Average No. of Households in Each Commune
Grand Total .....	26,425	121,936,350	98.2	4,614
Peking Municipality .....	56	663,124	100.0	11,841
Shanghai Municipality .....	23	256,000	100.0	11,130
Hopei .....	951	8,402,639	100.0	8,836
Shansi .....	975	3,483,564	100.0	3,573
Inner Mongolia .....	812	1,561,023	98.6	1,922
Liaoning .....	428	3,264,579	100.0	7,627
Kirin .....	481	1,914,547	100.0	3,980
Heilungkiang .....	718	1,946,478	100.0	2,710
Shensi .....	1,673	3,232,904	100.0	1,932
Kansu .....	794	2,006,389	100.0	2,527
Chinghai .....	144	245,624	100.0	2,456
Ninghsia *	53	201,815	67.3	3,808
Sinkiang ** .....	389	625,151	59.3	1,607
Shantung .....	1,580	11,347,989	100.0	7,182
Kiangsu .....	1,490	9,127,234	99.4	6,126
Anhwei .....	1,054	7,219,244	100.0	6,849
Chekiang .....	761	5,697,412	100.0	7,487
Fukien .....	622	2,672,839	95.1	4,297
Honan .....	1,285	10,272,517	100.0	7,994
Hupeh .....	729	6,040,000	96.1	8,286
Hunan .....	1,284	8,172,440	100.0	6,365
Kiangsi .....	1,240	3,720,000	92.0	3,000
Kwangsi *** .....	784	4,041,944	100.0	5,155
Kwangtung .....	803	7,905,553	100.0	9,845
Szechwan .....	4,827	13,676,988	99.1	2,833
Kweichow .....	2,194	3,101,205	94.5	1,413
Yunnan .....	275	1,137,148	31.0	4,135

\* Hui Nationality Autonomous Region.

\*\* Uighur Autonomous Region.

\*\*\* Chuang Nationality Autonomous Region.

Source: Tung-chi Kung-tso (Statistical Work), October 29, 1958.

leadership officials in charge sympathised with them and also took the view that "it is a great pity for them to study traditional medicine." So the higher officials took the native medicine leadership to task and explained that the old medicine had "not only waged a struggle against diseases and made great contributions to the multiplication of our race" but had a great role to play not only at home but in developing the medicine of the world at large.

No doubt the sceptics pointed out that it was native medicine which failed to cope with great small-pox, plague and other epidemics, which even in the lifetime of many swept through the land and drastically kept the population down to a figure only one-third of what it is now cited to be to-day. The reporters say that the fundamental reason behind such success as the courses did attain was that Party leadership ensured that politics were in supreme command and ideological education was intensified.

But they make it quite clear that nothing can be done about the older generation of Western-style doctors. "The

most suitable type of students are young doctors of Western medicine, aged about 30 years, who are Party or League members, are university graduates" (in China?) "or up to corresponding standards, have had two or three years' clinical experience, and are politically leftists, and who support the Party policy on traditional medicine and wish to dedicate their whole life to inheriting and developing the medicine of the motherland."

There are, of course, the usual rather gloving reports from the provincial centres, but it is quite clear from the report to the Ministry of Public Health that all but Party zealots are despaired of as potentially useful students of traditional medicine.

The result is bound to be, whenever really serious epidemics arise in the interior, a higher realisation of the urgent need of creating more modern, scientific doctors in the Western style, while at the same time intensifying measures to systematise and improve traditional medicine and especially to put down sheer "quackery" and superstition.

## Asia's Rice Exports

WORLD rice exports in the early part of 1958 have been falling below last year's levels.\* Thai shipments in the third quarter of 1958 totalled 244,900 tons, or almost 37% less than in the same period last year. The Thai total for the period January-September was only 952,900 tons, against 1.24 million tons in the same period of 1957.

Similarly exports from South Vietnam in the year to August were 128,700 tons, about 10% below the same period of 1957. Shipments from Singapore and Malaya, however, rose from 65,300 tons to 134,500 tons in the first half of 1958. But the July and August figures—15,700 tons only—showed a distinct falling off.

Shipments from Burma are believed to have been slowed down by labour troubles in the ports. In the twelve months to end-September consignments of rice and products totalled 1.47 million tons, compared with the 2 million level attained in the two preceding years.

In September Thailand's exports fell sharply to 52,100 tons—only a half of the August figure. No further export quotas had been issued by the end of October, and those remaining in exporters' hands at that time were believed to be nearly exhausted. Previous official estimates of the exportable surplus from the 1958-9 crop are now believed to be too optimistic: business circles believe it may be less than 1.1 million tons.

despatched to Japan. Shipments to France and the French Union fell severely during the first 8 months of 1958 to 10,600 tons—only just over a

Current Chinese contracts include one with Ceylon for 300,000 tons, one with Pakistan for 100,000 tons and one with Indonesia for between 200,000 and 400,000 tons. Peking continues to offer her rice on the European market, either

### RICE EXPORTS

(thousand long tons)

	Sept.	Aug.	July	2	1	1957	1956
Burma	—	—	128.1	470.5	330.1	1,727.3	1,833.3
Thailand	52.1	104.1	88.7	294.9	413.1	1,544.8	1,217.0
China*	—	—	31.9	118.8	104.7	268.9	385.7
Cambodia	—	—	0.5	12.9	65.8	88.9	190.6
S. Vietnam	—	—	20.0	—	70.0	38.7	177.2
Taiwan	—	—	—	30.6	75.1	119.9	107.5
Malaya & Singapore	—	7.1	8.6	62.1	63.8	115.3	71.4

\* From returns of importing countries, incomplete: first three figures exclude Russia.  
Source: Commonwealth Economic Committee, London.

tenth of the total for the same period of 1957. But this year Indonesia took 27,900 tons, the first since 1955, and Singapore and Malaya increased their imports from 2,000 tons to 43,400 tons.

### China's Exports Up

Figures are not available yet for mainland China's rice exports this year to the U.S.S.R., normally her largest customer. According to the returns of other importing countries, shipments in the first six months of 1958 were larger than last year. Shipments to Ceylon rose from 61,100 tons to 91,000 tons, and to Hongkong from 29,600 tons to 44,700 tons. In July Ceylon took a

direct or by barter.

New crop long-grain white rice, 5% brokens, was quoted last month at £50 10s. per long ton, net shipping weight, cost and freight U.K./Continent. Quotations for 35% brokens were £36 17s. 6d.

Taiwan's rice shipments January-June 1958 reached the high level of 124,800 tons, almost entirely to Japan, although South Korea in taking 29,900 tons became an outlet of importance for Taiwan producers.

Pan-Malayan exports almost doubled in the first 8 months of the year, but the August figure fell to 7,100 tons, mostly to Indonesia. Largest increase in the January-August period was to Indonesia, which took 118,400 tons.

### CHINA'S RICE EXPORTS

From returns of importing countries  
(thousand long tons)

	1957	1956	1955	Quarters				1957	1	Months		
				2	1	4	3			July	Aug.	Sept.
U.S.S.R.	178.0	450.0	288.0	—	—	—	—	—	—	19.2	—	—
Ceylon	160.0	242.2	120.3	30.7	60.4	70.2	28.7	45.8	15.3	—	—	—
Hongkong	63.5	51.1	36.3	28.3	16.4	14.3	19.6	13.7	15.9	12.4	—	—
Malaya	25.4	8.0	—	1.0	—	—	0.7	5.6	19.1	—	—	—
India	14.3	46.0	—	—	—	—	—	—	14.3	—	—	—
Poland	4.0	6.0	5.9	—	2.0	—	—	4.0	—	—	—	—
Indonesia	1.6	—	—	—	—	—	—	—	—	—	—	—
Japan	0.1	111.0	130.6	58.8	25.9	—	—	—	0.1	—	—	—
Total	446.9	914.3	581.1	118.8	104.7	84.5	49.0	69.1	64.7	—	—	—

Source: Commonwealth Economic Committee, London.

South Vietnam exported no rice in July, but shipments in August totalled 20,000 tons—of which 12,200 tons were

further 19,200 tons and Hongkong a further 12,400 tons.

January-June consignments to Japan and Indonesia rose from almost negligible quantities last year to 84,700 tons and 16,300 tons respectively this year.

Imports have also been falling this year. In the first eight months India took only 335,300 tons, against 525,000 tons in the first six months alone of last year. January-July figures for Ceylon, pan-Malaya and Hongkong were 172,400 tons, 216,800 tons and 172,400 tons respectively. Japan, Indonesia and pan-Malaya were the main exceptions to the trend for lower imports.

\* Based on the November Rice Supplement of the Commonwealth Economic Committee's Grain Bulletin.

## HONGKONG AFFAIRS

### If the Latins Wear the Trousers

By the Editor

**L**AST week the *Financial Times* Diplomatic Correspondent suggested in this *Review* that while the European Common Market would be harmful to Hongkong industry, a Free Trade Area of the kind advocated by the British Government would on balance prove advantageous to the Colony.

This is an arguable view. As far as the Common Market is concerned, it is true that Hongkong, in common with other Asian countries, must view with alarm the prospect of a tariff wall around the industrial core of the western part of Continental Europe. We depend upon exporting industrial products, and in this we—together with Japan—are in a very different situation from that of other countries in the Commonwealth and in Asia, which are mainly exporters of primary products.

As one eminent statesman-economist on a brief visit to the Colony remarked last week after being shown round the 16th Exhibition of Hongkong Products: "in two or three years' time all these things will be made domestically in your Asian markets; your target should be Europe, where labour is too expensive to be employed on such products."

Hongkong now exports about HK\$400 million—one third of the total—of her own products to Europe, including the U.K. (Total exports, including re-exports, are about \$550 million to Europe, including U.K.—or a sixth of the whole).

The Common Market area at the moment is importing about \$100 million worth a year of Hongkong products—if the dependencies of the Six are taken into account. Of this total Germany is taking about 40%, the Belgian and French dependencies in Africa about 35%, the Benelux countries some 13% and France herself about 3%.

Now the effect of the Common Market is to set up preferences against Hongkong both in metropolitan countries and dependencies. Tariffs will be averaged, and that means that they will be raised against Hongkong in her best markets—Germany and the Benelux countries—

and reduced in the markets less important to the Colony (France and Italy). This is bad enough, but the worst aspect of the Common Market from Hongkong's point of view is the possibility of quantitative restrictions, on which no clear assurances have yet been given. You can average a tariff, but you cannot average a quota.

Whatever emerges on the quota question, two conclusions seem justified about the Common Market. First, a Customs Union of this kind is bound to be restrictive, especially as its benefits begin to be reaped by internal producers. Second, it is hard to believe that German-Benelux economic liberalism can be married to Franco-Italian restrictionism without the protectionist Latins wearing the trousers. There is bound to be contamination and liberalism will be the loser.

#### No "Mitigation"

What defences, then, are open to the Colony in the face of this threat? Other Commonwealth countries—and other Asian countries—are chiefly affected by the prospect of preferences being given within the Six to the primary products of their own dependencies. This *Review* cited last week the complaint by the Governor of Bank Indonesia that Indonesian tobacco would lose to Belgian Congo tobacco under the handicap of a 30% (now to be 27%) import duty.

But as these preferences are probably open to attack under the rules of G.A.T.T., there is at least some chance of obtaining "mitigation" of them through the normal negotiating channels. No such bargaining power is available to Hongkong or Japan, which are hit by the main Customs Union itself—a perfectly legitimate device under the G.A.T.T. rules.

About the only hope would seem to be a Free Trade Area in which Hongkong would—and should, by virtue of its unique position economically—participate. At the moment exports of Hongkong products to countries inside the proposed Free Trade Area, but outside the Common Market, are running

at about \$350 million a year, 90% of which goes to the U.K.

The Free Trade Area, or the shadow that is left of it after Mr. Maudling's failure to sell it to the French, represents an attempt by Britain to protect herself from the effects of exclusion from the Common Market; the interests of Commonwealth countries were to be protected by the exclusion of agricultural products from the Area. But the effect of the Free Trade Area on Hongkong would be to withdraw the preferences in manufactured goods which she enjoys in the U.K. vis-à-vis the rest of Europe.

If Hongkong were to join a Free Trade Area, this handicap would be removed, and on the face of it there seems no reason why the Colony should not join. This would be one exception to the general rule that being a free trade port gives you a weak bargaining power in international trade negotiations.

Certainly, if the benefits which Hongkong has gained, through her association with the U.K., from O.E.E.C. liberalisations of trade in Europe are replaced by the rules of a Free Trade Area from which she is excluded, then the Colony will once more be out in the wilderness of world trade.

Of course the precise effect of losing preference is hard to gauge. But the combination of this with higher tariffs and possible quota restrictions will surely mean the exclusion of the Colony's products from markets for which they are ideally suited.

It is true, as the Diplomatic Correspondent of the *Financial Times* pointed out, that outward-looking, liberalistic economic integration in Europe would increase consumer demand, reduce internal pressures for protection and heighten the extent of specialisation of manufactures within Europe. All these factors would benefit Hongkong and other Asian countries, in the long run. But none of them are assured. They depend on the overall trading policies of the European countries concerned and on the far-sightedness of their governments.

Finally, if the Six in the Common Market emerge next month with the whip hand over the defeated "Free Traders" and can impose their terms for association with the remaining O.E.E.C. countries, there is little doubt that the economic progress of Hongkong will receive its greatest setback since the strategic embargo on China trade.

## Only Eight Millionaires

**I**N VIEW of the fact that the standard rate of tax has been unchanged since 1950-51, it says much for the continued prosperity of the Colony that the Commissioner of Inland Revenue should reveal in his recently-published annual report that the net revenue collected by his department during 1956/57 showed an increase of over H.K.\$20 million on collections during the previous year, i.e. \$184.9 million as compared to \$164.4 million.

Increases were recorded for all types of taxes with the exception of Estate Duty, which fell from \$24.4 million to \$16.6 million. Although the actual number of estates assessed increased, the individual values were not so high—there were only eight valued at over a million dollars as compared with 1956/57 when there were thirteen, one of which was exceptionally large.

Corporation Profits Tax rose from \$42 million to \$54 million and the Commissioner remarks that the tendency for businesses to become incorporated continues. Property Tax rose by more than \$2 million, to \$18.7 million due to the

No official view is expressed on this increase, but it would seem to indicate that salaries in general have risen. The Commissioner does, however, mention the increase in popularity of the Personal Assessment Scheme, an optional type of income tax available for residents in the Colony, for the number of files handled by the Inland Revenue Department rose from 11,871 in 1956/57 to 15,111 in 1957/58.

It is pleasing to be able to report that Hongkong's internal economic position was so satisfactory during the past financial year. It is equally pleasing to record that in raising the revenue, the population derived increased enjoyment, for Entertainments Tax, Bets and Sweeps Tax and Dance Hall Tax achieved all-time records.

### Aircraft Maintenance

**I**N HIS Review for 1957/58, the Director of Civil Aviation, Hongkong, states that a total of 24,939 aircraft movements of all types, civil and military, were handled by his air-traffic control officers during the course of the year, an average of 68 movements a day and an increase of 4 per day over the previous year.

The report draws attention to the fact, often forgotten, that the wide variety of

Engineering Company Limited, which provides engineering facilities for all but two of the airlines operating through Kai Tak.

In one day, the company may be called upon to handle ten different types of aircraft, and to keep pace with developments within the industry it sends its personnel regularly to the United Kingdom, America and Australia for training. Since no other aircraft engineering concerns exist in the Colony the firm has to provide facilities on a scale not usually found even in large countries where subcontracting is frequently possible; its overhaul and test equipment is of the most modern type in the world.

Worthy of special note is the reference made by the Director of Civil Aviation to the "skill and enterprise" of the Chinese technicians which are helping the Hongkong Aircraft Engineering Company achieve a world-wide reputation for the quality of its work.

The new 8,350-ft runway which His Excellency the Governor opened on 12th Sept., 1958, is a skilful and ingenious civil engineering feat which has caused much comment. Shortly the fine new terminal buildings will be completed. It is surely a matter of considerable pride that the expert maintenance and servicing of the great modern aircraft flying into Hongkong can be provided by a local firm.

### Nights from Home —for Pearls

**A**CCORDING to a recent advertisement in the Hongkong press, the Department of Agriculture, Forestry and Fisheries has a vacancy for an officer "prepared to spend nights away from home and go to sea in small boats," in order to carry out work in connection with the Pearl Culture (Control) Ordinance.

Pilot scale experiments in the production of cultured pearls, previously entirely a Japanese monopoly, have been in progress in Hongkong for about four years, and, while up-to-date figures are not immediately available, during the last financial year 4,100 locally cultured blistered pearls, conservatively valued at H.K.\$20,000, were sent to Japan for processing.

The culture of oysters in this region is roughly 700 years old, oyster meat and oyster juice being highly-prized delicacies in the Chinese cuisine. Pearl cultivation, however, is completely new and is being done on Japanese lines using

### HONGKONG SHIPPING

November, 1958

Flag	Vessels		Cargo			
	Arrivals No.	Tonnage	Departures No.	Tonnage	Import (tons)	Export (tons)
British	119	349,165	121	365,610	73,895	77,145
Chinese	17	5,299	17	5,605	6,623	3,024
Danish	16	56,787	17	60,655	6,531	4,172
Dutch	20	89,832	18	84,955	9,708	13,269
Finnish	1	2,826	—	—	—	—
French	11	40,814	10	39,036	9,268	3,663
German	10	51,230	10	51,230	4,899	2,789
Italian	5	22,734	5	22,734	1,228	280
Japanese	67	225,385	66	222,003	26,220	32,515
Korean	3	6,464	2	4,297	5,012	800
Liberian	5	22,205	7	32,746	26,986	800
Norwegian	49	137,571	48	133,532	93,157	25,667
Panamanian	12	22,712	12	27,838	34,162	5,357
Philippine	1	586	1	586	891	900
Polish	3	11,179	3	11,179	525	Transit
Swedish	10	31,730	10	31,730	3,906	3,436
U.S.A.	19	105,605	19	105,605	8,191	6,341
Greek	—	—	1	5,229	—	—
Total	368	1,182,122	367	1,204,570	311,202	180,158

number of new buildings erected during the year: the figure for Salaries Tax collected was \$15 million as compared with \$10 million last year because of the number of employers with staff who are potentially liable to tax of this type.

aircraft now using Hongkong's international airport requires that the most modern techniques be immediately available for maintenance and servicing, and the Director pays tribute to the enterprise of a local firm, the Hongkong Aircraft

the "hanging-drop" method. Experts from Japan are at work in the Colony advising on the development of the industry.

An area at the east of Tolo Harbour, in the New Territories, seems to have become the centre of the industry and with the passing of the Pearl Culture (Control) Ordinance, official recognition will be given to what may well become an extensive revenue-earner.

Hongkong can never hope to rival Japan, which at the end of 1957 had 1,456 pearl cultivators ranging from the world-famous to the domestic, but if sufficient (and patient) financial backing is forthcoming, there is tremendous scope for locally cultivated pearls in Commonwealth countries.

### Problems of Power

**T**HREE is a curious air of unreality about the renewed debate between the Colony's manufacturers and the power companies. It is difficult to steer a clear course through the confused talk about Government intervention, removing the industrial surcharge, comparison of charges with other countries, the incidence of power breaks, high dividends, and the ploughing back of profits.

In the first place it must be said that self-financing private-enterprise power supply is a good thing for the Colony provided a good service is maintained at reasonable cost and the future needs of the community are adequately anticipated. Mr. Lawrence Kadoorie, Chairman of China Light and Power Company Limited, has made it clear in his annual report and in his remarks at last week's annual meeting that there is no need to fear on the latter count. The power companies' plans, including exploratory talks on nuclear generation, seem realistic: if they were not, there would be a strong case for Government prodding.

The quality of service has been criticised by some industrialists. But China Light has the unusual record of never refusing supply to industry in spite of physical difficulties, and in a pattern of islands and gradients such as this Colony that is no mean achievement. Some 60% of the breaks in transmission last year were arranged shutdowns to allow for repair and new installation: the remainder constituted 0.13% of total time, not an unusual proportion. Mr. E. F. Szczepanik, of Hongkong University, has said in his recent book on the Colony's post-war

growth that Hongkong "is probably the only place in the Far East to have had no post-war power shortage, in spite of the increase in consumption."

In this connection Mr. Kadoorie revealed that \$30 million is being spent on further underground cables to reduce interruption by lightning: already some 80% of the load is carried underground.

What about cost? Almost a half of the electricity sold goes to large industrial users on bulk supply, and these are effectively subsidised by China Light at the expense of smaller and domestic consumers.

But Mr. Kadoorie warned that a higher industrial tariff would be necessary if extra fuel costs were not recouped by surcharge and it is argued by some industrial consumers that a variable surcharge geared to the price of oil is better than an overall increase. Mr. Kadoorie has declared that the bulk supply rate for large users in Kowloon and the New Territories is 3% below the average Singapore rate and 1% below U.K. rates—although fuel here is around 30% dearer in each case.

In all this welter of figures it is not easy to make a judgment, but on balance it seems unlikely that industry in the New Territories and Kowloon can get its power much cheaper than at present—unless distributed or retained profits are cut down. Power is said to represent only about 2% of total manufacturing costs, so that even a substantial reduction in the surcharge would make little difference in factory budgets.

China Light does not reveal its total turnover, but its volume of sales is known and the gross income cannot be much more than \$80 million a year. If this guess is right, China Light's gross income last year was divided roughly as follows: operating expenses 69%, shareholders 15%, re-investment 12%, taxation reserve 4%. Just over \$12 million was distributed to shareholders on a paid-up capital of just over \$55 million. A total of \$53 million has so far been re-invested in the company.

The only legitimate questions now are: (1) is a 15% net profit margin reasonable and a 12% reinvestment rate adequate for an effective private monopoly of a basic service on which the Colony's industrial economy depends? (2) is there a case for Hongkong Electric and China Light co-operating to reduce costs — as they logically must, for example, when atomic energy comes to Hongkong?

### Hongkong Exports Fall

EXPORTS of Hongkong products fell by 6% last month, and about one third of the fall was due to smaller shipments to the U.S.A. There was some increase in re-exports, particularly to Indonesia, but not enough to counterbalance the drop. Total exports were down by \$2 million.

Imports fell most sharply by \$16.6 million, a very large drop of \$23 million in deliveries from mainland China being only partly offset by larger imports from elsewhere.

In the first eleven months of 1958, imports are running at nearly 16% below last year's level, while total exports are running at 4% below the 1957 rate. Within this total, re-exports are 8% down and exports of Hongkong products are 2% up.

Textile exports of Colony manufacture fell only slightly in November, a little more among garments and made-up clothing than in yarns and piece-goods. Footwear did a little better: enamelled household utensils rather worse.

Electric torches fell substantially, and so did gloves and mittens. More of our products went to the U.K., Thailand and Indonesia, less to the U.S., Germany and Australia.

### LEADING EXPORTS OF HONGKONG MANUFACTURES

	Million HK\$	Nov. 1958	Jan./Nov 1958	Jan./Nov 1957
Cotton piece goods .....	21.0	205.8	211.4	
Outerwear .....	15.7	185.3	127.0	
Shirts .....	8.4	70.3	77.9	
Cotton yarns ..	7.2	80.6	101.8	
Footwear .....	7.0	86.6	64.1	
Household				
enamelware ..	6.2	61.1	60.1	
Toys & games ..	5.4	58.7	47.8	
Cotton singlets, underwear & nightwear ..	4.4	59.9	65.4	
Electric torches, bulbs & batteries .....	3.7	42.8	52.8	
Furniture (wood & plaiting) ..	2.4	30.2	32.0	
Gloves & mittens ..	2.2	48.6	53.8	
Preserved fruits & ginger .....	2.2	23.1	22.1	
Towels (unembroidered) ..	1.4	12.8	11.3	
Linen, embroidered ..	1.3	14.6	14.4	
Paint, enamel, mastic, lacquer & varnish ..	1.3	13.0	14.5	
Plastic articles ..	1.2	10.3	10.2	
Buttons & studs (not of precious metals) ..	1.1	13.8	14.3	

## HONGKONG'S TRADE

### China Sends Here More Consumer Goods To Meet Seasonal Demand

By Richard Ying

**H**ONGKONG'S imports during the past fortnight came chiefly from China, Japan and the United Kingdom. Exports to the U.K. were also heavy but shipments to Japan and China remained quiet. Reexports of Chinese products to Thailand, Singapore and Malaya were maintained at a high level while demand from the United States for Hongkong manufactures continued strong.

**China**—With the approach of the Holiday Season, China sent here large quantities of foodstuffs, silks, woollens and a great variety of gift items and other consumer goods. About a dozen of local stores which are exclusively selling Chinese products started a 10 per cent discount sale to attract buyers.

Among the new items offered to local consumers were Christmas lamp-bulbs, hand painted Christmas greeting cards, silk ties, biscuits, battery-driven mechanical toys, furniture, handbags, children's fur coats and detergents.

On the other hand imports of produce were restricted to small lots. Supply of popular items such as oils and oilseeds was still very difficult to get from Canton. Consignments of fresh eggs to the local market were also curtailed. Consequently, retail prices here for eggs advanced from 6 per HK\$1 to only 3.

**The United Kingdom**—The negotiation between Hongkong and British textilemen on the 'voluntary limitation' of exports of cotton goods from here to the United Kingdom made good progress during the fortnight although Hongkong weavers and spinners were still arguing over the problem of using only Hongkong cotton yarn for cotton goods to be shipped to the United Kingdom under the proposed quota.

According to a reliable source, following agreements have already been reached: (1) Cotton goods to be shipped to the U.K. under any agreed quota should be woven and finished in Hongkong. (2) The quota for finished cloth under any overall ceiling, should be 15 million

square yards in the first year and going up to 23 million and 28 million in the following two years. (3) The interchangeable quota between grey cloth and finished cloth, including yarn-dyed cloth and towelling, should be four million square yards annually. (4) Exports of made-up goods in excess of quota figures should be applied to piecegoods on a pro rata basis.

Cargo movements between Hongkong and the United Kingdom were not very busy during the fortnight but the volume was quite heavy: imports totalled 5,000 tons and exports, 6,000 tons. Cotton textiles still constituted the major portion of the export tonnage. Principal imports included base metals, automobiles, cigarettes, woollen goods, provisions and cosmetics.

**Europe**—West Germany remained the best European buyer for Hongkong products. With the increase in the volume of shipments of Hongkong manufactures to that market, authorities there now require certificates of origin for a number of items including basketware, woven fabrics of jute, cotton underwear, plastic buttons, etc.

**The United States**—About 6,000 tons of Hongkong products were shipped to the United States. American consumers continued to provide strong demand for Hongkong manufactured rattan and hardwood furniture, torch cases, rubber footwear and plastics while American mills absorbed large quantities of Hongkong cotton cloth.

Orders from the United States for cotton and silk shirts are now given to a few large factories here. Small manufacturers are no longer in a position to accept these bookings on account of the size of the order, the high production standard required and the low price offered by American importers.

**Japan**—Japan sent here about 10,000 tons of cement, metals, paper, cotton goods, fruits, canned food and other consumer goods. Reexports of Japanese

goods to Thailand and Indonesia were slightly better but still much below the volume of last year. The shortage of eggs in Hongkong encouraged local dealers to book this item from Japan during the fortnight. High freight charges discouraged dealers from importing this item from Japan in the past.

The display of Japanese synthetic fibres on the ground floor of the Li Po Chun Chambers by the Toyo Rayon Company of Japan attracted large crowds every day particularly during lunch hours. A wide range of nylon, rayon and tetoran products were on display including all types of nylon yarns, fabrics, materials for industrial use, fishing nets and articles for interior decoration. Lady visitors were much impressed by the fashions displayed by Japanese and Chinese models.

**Thailand**—Reexports of Japanese and Chinese industrial supplies and consumer goods to Bangkok registered a slight improvement during the fortnight; consignments totalled 4,000 tons. Towards the end of last week, however, demand from Bangkok for cotton textiles, electric appliances, metals, paper, foodstuffs and sundries turned sluggish again on account of the tight money market in Bangkok.

Imports of rice from Thailand improved but the total volume of these shipments plus consignments of maize, beans, live cattle, teak and other Thai staples was still not as heavy as at this time last year.

Local dealers recently booked more rice from China because imports from Thailand had not been as satisfactory as during 1957. In the case of teak imports, local dealers turned to Rangoon for the bulk of current supply on account of the better quality and the cheaper price of Burmese teak.

**Indonesia**—Djakarta ordered small lots of metals, paper, pharmaceuticals and foodstuffs from the local market. There were also enquiries for cotton cloth and other cotton goods but no transaction was closed during the fortnight. Interest was centred chiefly in Chinese and Japanese products and most orders were limited to small sums.

**Malaya**—Demand from Singapore and Malaya for cotton goods, beans, metals, paper, pharmaceuticals, cement and foodstuffs continued very strong. About 4,000 tons were shipped there during the fortnight consisting chiefly of Chinese products.

It was reported but not confirmed that Peking trade agents here were accepting orders direct from importers in Singapore and Kuala Lumpur for consignments of

various Chinese products from here to Singapore and Malaya. In the case of rice, shipments will still be made direct from China to Singapore if payments are cleared in Hongkong.

**The Philippines**—Shipments of essentials to the Philippines under the extended old barter licences amounted to about 5,000 tons during the fortnight. Principal items included torch, plastics, cotton goods, canned food, hurricane lantern, garments, enamelware, pharmaceuticals and sundries. Dealers here are anticipating a gradual decline in exports to Manila in the near future because old licences have been extended only to January 15, 1959 while new licences have not yet been issued.

**Taiwan**—Authorities in Taipei lifted the export ban on citronella oil; export floor price was also lowered. The recent Taiwan's ban on citronella oil had indirectly boosted prices for communist Chinese citronella oil in Europe. The lifting of the ban is aimed to regain the European market for Taiwan products.

Imports of sugar from Taiwan were reduced during the fortnight while, on the other hand, supply of live hogs, starch, tea, ginger and other Formosan produce to the local market returned to normal after the recent curtailment following the outbreak of fighting in the Formosa Straits.

Taiwan's purchases from here, however, were still limited to small quantities of provisions, chemicals and other essentials. There were also orders from Taiwan for scrap metals but the quantity involved was too insignificant to stimulate the local market.

**Cambodia**—Exports to Cambodia showed a slight improvement following the relaxation of import restrictions there. The lack of adequate foreign exchange there, however, continued to limit purchases from here to small lots of pharmaceuticals, wheat flour, cement and other essential supplies.

**Burma**—Reports from Rangoon indicated that authorities there might suspend imports from the Sterling area on account of the shortage of Sterling. Hongkong's exports would not be affected because at present Hongkong is buying more rice and teak squares and logs from Burma than before; furthermore, local dealers would accept any currency in payment for purchases from here.

Orders reached here from Rangoon during the fortnight covered wheat flour, metalware, garments, cotton goods and sundries. The volume of these purchases, however, was still very small.

**Africa**—Exports to West Africa slowed down; only about 600 tons during the fortnight. Shipments of cotton textiles and enamelware still constituted the bulk of the tonnage. Local weavers, reported that demand from French West Africa for cotton cloth had dropped considerably

### Commodity Markets: Turnover Small But Commodity Prices Steady

The volume of trade in the local commodity markets was still low. Transactions were either restricted by inadequate stocks or handicapped by low buying offers.

Prices were steady in general. Even quotations for sugar and wheat flour, which had been sluggish recently, improved during the fortnight.

**Produce**—The market was active with demand from Japan, Europe, Singapore and Malaya for various oils, beans and oilseeds. The volume of business, however, was not impressive because orders from various sources were limited to small quantities.

Local dealers were still unable to procure adequate supply of rosin, menthol crystals, beans, oils and oilseeds from the Mainland. Replenishments from Cambodia, Burma, Thailand and Taiwan were too expensive in most cases to meet the demand from Japan because Japanese importers were procuring items such as sesame direct from Thailand and other S.E. Asian sources.

At present, Japan and Europe are considering Hongkong only as a secondary source of supply. Peking's policy of dealing direct with ultimate buyers in her exports whenever possible further threatens Hongkong's entrepot trade in produce.

Hongkong dealers are also experiencing increasing difficulty to get supplies from China at a profitable price. For example, quotations from Canton for feathers last fortnight were much higher than what European buyers would accept. This was caused by the dumping of Chinese feathers in European markets by Russia. In many other cases, China's direct offers to Europe are cheaper than Hongkong's quotations.

**Metals**—China resumed her bargain hunting in the local market with the approach of the year-end. Interest was centred on pipes and metal sheets. The volume of these purchases was small because there was no selling pressure this year to depress prices to the level which communist purchasing agents had anticipated.

Demand from S.E. Asia was selective.

since the introduction of quota control there last month.

Shipments of cotton goods, plastics, metalware and sundries to South and East Africa amounted to 1,000 tons and 800 tons respectively. The volume is very low compared with this time last year.

### Commodity Markets: Turnover Small But Commodity Prices Steady

Thailand was keen on structural steels, Singapore was interested in steel plate while Indonesia enquired for zinc sheets. The volume of business was also small because importers in these countries had only limited amounts of foreign exchange for the purchase.

Local demand for structural steels and base metals remained very strong keeping prices at a very firm level. Scrap metals retained steady demand from Japan but orders were still limited to small quantities.

**Paper**—Singapore and Malaya continued to take Chinese newsprint, manifold and straw board from the local market. Demand from Indonesia and Thailand for newsprint, poster, kraft, mg cap, tissue, greaseproof, glassine and cellophane covered mostly Chinese and Japanese products.

Local consumption of printing, packing and writing paper remained normal; interest was also centred on Chinese and Japanese products on account of the cheap price. Only Korea insisted on having European sulphite, cellophane and other paper.

**Industrial Chemicals**—With the exception of orders from Taiwan for insignificant lots of lead oxide, rubber accelerator, lithopone, shellac and gum copal, the market was very quiet. Demand from local factories for soda ash, tanning extract, petrolatum, magnesium sulphate, calcium hypochlorite and oxalic acid was too weak to stimulate the market.

**Pharmaceuticals**—Trading in patent medicines was quiet. Fine chemicals retained selective demand from Singapore, Malaya, Indonesia, Cambodia and China but the volume of business was restricted by the lack of adequate stock here. Low buying offers also handicapped trading. Popular items included sulfonamides, aspirin, phenacetin, saccharum lactose, saccharine crystal, salicylic acid, mercurochrome crystal and DDT.

**Cotton Yarn**—Spot transactions in Hongkong cotton yarn were suspended on account of the lack of supply. Most

(Continued on page 823)

## Trade Reports

(Continued from page 820)

local spinning mills had already sold out even April-1959 forwards.

Enquiries from Thailand were therefore centred on Pakistan brands. Local weavers and knitters also provided good demand for Pakistan cotton yarn. Prices were steady in general.

**Cotton Piecegoods**—Orders continued to arrive from the United Kingdom, Europe and Africa for forward deliveries of Hongkong grey cloth. Buying offers, however, were depressed and the volume was somewhat reduced. Spot goods were difficult to get especially after the absorption by Singapore and Malaya.

Local processing mills therefore bought up substantial quantities of Chinese and Japanese greys. Prices for Chinese brands were very firm towards the end of last week after Canton had marked up the new indents.

Local speculators also took up a large quantity of Chinese grey in anticipation of orders from Indonesia. Towards the end of last week Chinese greys began to dip under selling pressure brought about by the liquidation of these speculative holdings.

**Rice**—Prices in the local market during the first week were firm on account of the curtailed imports during November. During the second week, however, the market was easy after fresh supplies had arrived from Thailand, China and Burma. Bangkok indents were also marked down slightly.

There were no sharp drops in wholesale prices because local retailers took over a substantial quantity from importers during the week.

**Wheat Flour**—Strong local demand and steady exports to Cambodia and Burma stimulated the local market during the fortnight. Local brands were very firm on account of the short supply. Imported brands also improved.

**Sugar**—Sugar prices also recovered because imports from Taiwan and China were curtailed while local demand improved. Firm prices on the international market helped to stimulate the local market. Hongkong products were also marked up last week.

**Cement**—Both Chinese and Japanese indents firmed during the fortnight. Hongkong Green Island cement also advanced. The market was very firm because imports from China and Japan were curtailed while exports to Cambodia, Singapore and Malaya continued steady. Local demand was also maintained at a high level.

## THE EXCHANGE MARKET

### Market Quiet; Rates Steady

By Fuchun Chan

#### U. S. \$

Dec.	T. T. High	T. T. Low	Notes High	Notes Low
8	\$578 1/4	577 1/4	576	575 1/4
9	578 1/2	578	576 1/4	575 1/4
10	578 1/2	578 1/4	576 1/4	576 1/4
11	579	578 1/4	577	575 1/4
12	578 1/2	578	576 1/4	576
13	578	577 1/4	576	575 1/4

D. D. rates: High 577 1/4 Low 576 1/4.

**T**HE Market was very quiet last week with only small changes in rates. Trading totals were T.T. U.S.\$2,580,000; Notes cash U.S.\$270,000, forward U.S.\$1,010,000; D.D. U.S.\$270,000.

In the T.T. sector, gold and general importers bought, and Japanese, Korean and Philippine merchants sold. In the Notes market, speculative activity was very small.

Interest favoured sellers and aggregated H.K.\$1.20 per U.S.\$1,000. Speculative positions taken averaged U.S.\$850,000 per day. In the D.D. sector, the market continued quiet.

#### Far Eastern Exchange

Highest and lowest rates per foreign currency unit in H.K.\$: Philippines 1.595—1.54, Japan 0.015—0.0148, Malaya 1.8825—1.88, South Vietnam 0.0699, Laos 0.0724, Cambodia 0.078, Thailand 0.2777—0.2755, Indonesia 0.0613, India 1.09.

The market was quiet with business transacted between merchants. When rumours spread about the depreciation of Peso in the near future, eager sellers appeared.

People's Yuan notes were quoted at H.K.\$0.92—0.82 per Yuan. Taiwan Dollar notes were quoted at H.K.\$0.128—0.127 per Dollar, and remittances at 0.12725—0.127.

#### Bank Notes

Highest and lowest rates per foreign currency unit in H.K.\$ were: England 16.08—16.07, Scotland 14.80, Ireland 13.50, Australia 12.71—12.70, New Zealand 13.90—13.80, Egypt 11.80—11.50, East Africa 15.20—15.10, South Africa 15.74—15.73, West Africa 13.50, Jamaica 13.50, Gibraltar 13.50, Malta 12.50, Cyprus 12.50, Fiji 10.50, India 1.1825—1.179, Pakistan 0.895—0.89, Ceylon 0.905

—0.88, Burma 0.515, Malaya 1.85—1.839, Canada 5.945—5.9025, Cuba 5.30, Argentina 0.065, Brazil 0.032, Peru 0.24, Mexico 0.40, Philippines 1.58—1.5775, Switzerland 1.325, West Germany 1.355—1.35, Italy 0.00895, Belgium 0.108, Sweden 1.02, Norway 0.72, Denmark 0.77, Netherlands 1.46, France 0.0124—0.0123, South Vietnam 0.0705, Laos 0.068—0.067, Cambodia 0.079—0.07725, New Guinea 1.15, Indonesia 0.061—0.059, Thailand 0.2675—0.265, Macao 0.993—0.988, Japan 0.015—0.014925.

The official depreciation by Chile from Pesos 901-899 to 839-837 per U.S.\$ gave no notice to the local money changers, who have no stock in the Colony.

#### Gold Highs & Lows

	Dec.	High .945	Low .945	Macao .99
8		\$251 1/4	251 1/4	Low 262 1/4
9		252	251 1/4	
10		252	251 1/4	
11		252 1/4	251 1/4	262 1/4 High
12		252 1/4	251 1/4	
13		252	251 1/4	

The opening and closing prices for gold were 251 1/4 and 251 1/4, and the highest and lowest 252 1/4 and 251 1/4. The market was again quiet. Interest for the change over in the fictitious forward market favoured sellers and aggregated H.K.\$0.16 per 10 taels of .945 fine.

Tradings averaged 3,800 taels per day and amounted to 22,800 taels for the week, of which 8,490 were cash dealings (2,890 taels listed officially and 5,600 taels arranged privately).

Exports amounted to 6,000 taels (4,000 taels to Singapore, 1,000 taels to South Vietnam, and 1,000 taels to Japan). Differences paid for local and Macao .99 fine were H.K.\$12.50—12.30 and 11.10 respectively per tael of .945 fine. Cross rates worked were U.S.\$38.05—38.04 per fine ounce, and 8,000 fine ounces were contracted at 38.04 c.i.f. Macao.

U.S. double eagle old and new coins were quoted at H.K.\$262 and H.K.\$240 respectively per coin, English Sovereigns at H.K.\$59 per coin, and Mexican gold coins at H.K.\$270 per coin. Platinum plates (European) were quoted at H.K.\$365 per tael, and platinum pieces (Japanese) at H.K.\$350 per tael.

## COMPANIES & SHARES

### Lower Interest Rate Stimulates Trading

By Richard Ying

**T**HE reduction of interest rate by the Hongkong and Shanghai Banking Corporation on overdrafts against shares as a security stimulated the volume of business last week. The turnover on Monday amounted to \$852,000, on Tuesday \$868,000, Wednesday \$600,000, Thursday \$684,000 and on Friday reached \$935,000.

Interest was particularly keen on Hongkong Banks and Utilities. A few counters registered slight drops towards the end of last week on account of light scale profit-taking but the undertone of the market was very firm in general.

#### H.K. Banks Firm

Hongkong Banks continued to recover to \$805 on strong demand; 677 shares were transacted during the week accounting for over half a million dollars of the total turnover. The highest pre-dividend rate for Hongkong Banks this year was \$860. The closing rates last Friday at \$800/\$805 were very firm.

#### H.K. Lands Attractive

H.K. Lands edged up from \$30.25 to \$30.50. Sellers wanted \$31 after the company had announced that 200,000 shares would be issued at par (\$25 each to be paid in full before March 31, 1959) to shareholders in the proportion of one new for 12 old and that 100,000 shares would be issued, fully paid up, to shareholders in the proportion of one new to 2 old. Both new issues would rank for dividend as from January 1, 1959.

The company also assured shareholders that in the absence of adverse circumstances, the present rate of dividend (\$2.40) could be maintained on the increased issues. The company's authorized capital is four million shares at \$25 each. 2,400,000 shares are now on the market and with the new issues there will be 2,700,000 shares on the market after March 31, 1959.

Current price at about \$31 per share is equivalent to ex-all price of \$29.50 each. The share was therefore very firm at the end of last week.

#### Nanyangs Bearish

On the other hand, Nanyang's announcement of an interim dividend of only 20 cents (30 cents less than last year) disappointed buyers. Prices plunged from \$7.40 of the preceding week to \$6.80 last Thursday.

The lowest price this year was \$6.70. Sellers wanted \$6.90 at the end of the week but there were no buyers because investors were anticipating a lower final dividend as well. The price for this share may further dip to about \$6.

#### Utilities Bullish

Among Utilities, Electrics and Telephones continued to advance. Electrics at \$25.10 were nearing the 1958 ex-all highest of \$25.50. Telephones at \$24.80 reached a new high ex-rights price. Lights at \$16.80 was about \$1.60 below \$18.40, the highest so far this year. Trams at \$26.30 were also nearing the 1958 highest at \$27.20. Yaumatis continued to rally; reached \$94 but eased to \$93 on Friday under profit-taking.

#### Cements Speculative

Cements climbed up to \$26.50 during the week but profit-taking depressed it to \$25.90 on Friday. This share is highly speculative because if the dividend this year is kept at \$3, prices would further advance, possibly to about \$28. If the dividend should be \$2.50, the price would decline.

During the past few weeks, speculators were banking on the news that both the price and the volume of exports of Green Island cement had improved recently. The company, however, have not yet indicated what dividend they would distribute this year.

#### QUOTATIONS FOR SELECTED HONGKONG SHARES

Share	December 5	Last Highest	Week's Lowest	Rate Closing	Up & Down	Dividend	Estimated Yield (%)
HK Bank ...	790	805	790	800	+\$10	\$48	6.00
Union Ins ...	71.50n	71.50n	70	70.50	-\$1	\$3.40	4.82
Lombard ...	27n	27n	26	27n	steady	\$2	7.41
Wheelock ...	5.60	5.75	5.60	5.70	+10¢	75¢	13.13
Int Inv ....	5.10	5.40s	5.15b	5.20b	+10¢	65¢	12.50
Allied Inv ...	4.025n	4.10s	4.025n	4.05s	+2½¢	25¢	6.17
HK & FE Inv	9.50s	9.50s	9.20	9.50s	firm	80¢	8.42
HK Wharf ...	93n	95	93	93b	steady	\$9	9.68
HK Dock ...	42.50b	43.75	42.50b	43.50b	+\$1	\$2	4.60
Provident ...	12	12	11.90	11.90	-10¢	\$1	8.40
HK Land ...	30.25	31s	30.25	30.75	+50¢	\$2.40	7.80
HK Realty ...	1.35b	1.40	1.375	1.375b	+2½¢	15¢	10.91
HK Hotel ...	21.30	21.60	21.30	21.50	+20¢	\$1.50	6.98
Star Ferry ...	105b	109s	104b	106b	+\$1	\$9	8.49
Yaumati ...	92.25	94	93	93	+75¢	\$7.50	8.06
Trams ....	25.90	26.30	25.90	26.30	+40¢	\$1.90	7.22
Light ....	16.30	16.80	16.40	16.60	+30¢	\$1.10	6.63
Electric ...	24.80	25.10	24.80	25	+20¢	\$1.90	7.60
Telephone ...	24.10	24.80	24.10	24.60	+50¢	\$1.50	6.10
Cement ....	25.20	26.50	25.70	25.90	+70¢	\$3	11.58
Dairy Farm ..	15.90	16.50	15.90	16.30	+40¢	\$1.775	10.89
Watson ....	13.10	13.30	13.10	13.30	+20¢	\$1	7.52
Amal Rubber ...	1.725	1.75	1.70	1.725	firm	20¢	11.59
Textile ....	3.85n	—	—	3.85n	steady	60¢	15.58
Nanyang ....	7.40	7.35s	6.80	6.90s	-50¢	80¢	11.59